SO YOU WANT TO BE AN ECONOMICS JOURNALIST?

The Role of the Media in the Formulation of Economic Policy

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Abstract

This article examines and comments on the reporting of economic news in the Australian media, the influence on that reporting of media judgments about newsworthiness, the relationship between economic reporting and the financial markets, and governments' use of the media in the economic policy process. Finally, it focuses on the role of economic commentators in the quality press, their relations with the bureaucracy, their part in the rise of economic rationalism and the nature of their influence on the formulation of economic policy. It concludes that when the commentators as a group take up causes and pursue them over sustained periods, they help to create a climate of elite option which emboldens governments to undertake politically difficult policy reforms.

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1. Introduction

Dr Andy Stoeckel tells a story of visiting the editor of *The Economist* and asking him why he had taken the backward step of abandoning his career in Treasury to become a journalist. The editor explained that, as an econocrat, he had always had trouble getting his minister to take much interest in the policy memorandums he wrote. But his minister was always asking his opinion of articles the minister had read in the newspapers that morning. He'd decided he would have more influence if he became a newspaper economist.

That is an anecdote to warm the heart of every economics editor. An honest portrayal of the media's role in the formulation of economic policy, however, requires me to range much more widely and to reach a conclusion much less flattering to journalistic egos. We should start by looking at the media's role in general, before progressing to the particular instance of their role in economic policy formation.

2. The Media's Role

In referring to the media I'm limiting myself to the news media, but remembering that there are many mediums for news: not just the alleged quality press, but also the tabloid press, news magazines, business magazines, radio, television and wire services.

In the media's view of their own role, they are concerned primarily with the reporting of news: the recording of facts about events and the recording of opinions expressed by people with some form of authority. Only secondarily

do they express their own opinions about the news, and then usually in a way that is clearly delineated from the news, such as an unsigned editorial, a labelled 'comment' or a host's contribution to a talk-back radio session. So the media see themselves as essentially neutral purveyors of information, the carriers of messages between one part of the community and another.

In reality, the media's role is not as neutral or objective as they like to pretend. It is true, however, that the media's power is not exercised solely by themselves and in their own interests. It is available to be used by others, and many institutions, interest groups, businesses and individuals regularly avail themselves of the opportunity.

Chief among those who seek to use the media for their own purposes are, of course, governments. Government ministers and their departments employ a small army of press secretaries and public relations officers to 'manage'—or, to be blunt, manipulate—their relations with the media. Governments use the media to convey messages to the electorate, and interest groups within the electorate. They also use the media for information coming in the opposite direction. It follows that the media are used also by members of the public and, more particularly, interest groups to convey messages to governments. Messages from the public are conveyed by means of talk-back radio, letters to the editor, vox pop reporting and opinion polling.

Media workers are perfectly aware that they are 'used' in this way by governments and powerful sectional interests and are, within limits, quite unconcerned. They see themselves as message carriers. The catch, however, is that all interest groups don't have equal access to the media's broadcasting service; among individuals, the inequality is even greater. To have your message accepted for broadcast, it must be judged 'newsworthy'.

3. Newsworthiness and Media Biases

The obvious weakness in the media's perception of their role as neutral carriers of messages is that, unlike most messengers, they choose which messages they will carry. It is impossible for the media to tell us all that is happening in the world, nor would we want to be told. So a process of selection is inevitable. But the media not only select the information they will pass on, they also decide the length of the message and the prominence it will be given.

All these decisions are based on the perceived 'newsworthiness' of the information in question. Judgments about newsworthiness are highly subjective and not easily reduced to a list of immutable principles. I think the key to understanding the principles of news selection, however, is to remember—as so many academic analysts of the media seem to forget—that, with the exception of the ABC and SBS, the news media are profit-making institutions. Either directly (as in the case of the press) or indirectly (as in the case of the free-to-air electronic media) they are selling their news. So the news they select is the news they believe their customers will most want to buy. These commercial considerations introduce a host of biases to the selection of news.

The essence of newsworthiness is the perceived interest to the audience. (I say perceived because journalists and their editors are able only to guess at what their audience will find interesting. In this guessing game they are influenced heavily by the guesses being made by their competitors.) This means that news selection is amoral: the search is for what people are interested in, not what they should be interested in. Importance is one measure of what is interesting and the media are forever yielding to the temptation to raise the interest-value of events artificially by exaggerating their importance. However, what is important may not be very interesting and vice versa. In such cases the interesting will almost always crowd out the important.

Aided by Tiffen (1989), we can list some views that are widely held by journalists and editors and which influence the selection of news: people are more interested in other people than in concepts; they relate more to the concrete than the abstract; they are more interested in what people do than in what they say. It follows that governments invariably get more media attention than oppositions. Bad

news is more interesting than good news. Conflict is more newsworthy than co-operation; costs get more attention than benefits; the media tend to highlight problems rather than solutions.

In their concern to interest their audience, the media tend to pander to what they perceive to be their audience's prejudices. One consequence of this is a lack of logical consistency, especially in movements between the general and the particular. In general, government spending is likely to be portrayed as wasteful and excessive, but decisions to cut particular items of spending—say, to close schools or hospitals—are usually portrayed unfavourably.

If you find this (partial) catalogue of the biases inherent in the media's selection of news shocking and deplorable, I offer one comment in mitigation: the media's failings mirror the failings of their audience, which are the failings of human nature. And this is no accident; it reflects the media's primary motivation, which is commercial.

4. The Media's Coverage of Economics

This general discussion of the media's role and the biases that affect their performance of that role bears directly on the media's coverage of economics. That coverage is dominated by the reporting of economic events, rather than expressions of pure economic opinion. Those events include the release of economic statistics, movements in prices on financial markets, government policy announcements, the publication of government reports and speeches by politicians and econocrats. Economic reporting is carried by all sections of the media: newspapers, wire services, radio and television, though less so by the (mainly weekly) news magazines and business magazines. Outside the four or five organs of the quality press, the reporting is done mainly by journalists without economic training, much of it by Canberra gallery journalists as an adjunct to their political reporting.

There is little doubt that the quantity of economic reporting has increased considerably over the past decade or so. A deputy governor of the Reserve Bank has remarked that:

> There is no country in the world that is as obsessed with economic issues as Australia. In other countries, the front pages of their newspapers are full of stories about civil wars, riots, racial tension, constitution crises, etc. Ours are filled with balance of payments statistics, unemployment statistics, Budgets, etc. This is not an original observation—I have heard it again and again from overseas visitors.
> [Macfarlane 1994, p. 1]

There seems little reason to doubt that the increased quantity of economic reporting reflects increased demand for information about the economy on the part of the media's audience, though this is difficult to measure because all media outlets present economic news as part of a package of other news. It's hard to believe that the media could go on foisting significantly more economic news on their audience than it wishes to receive, though it's not hard to believe that this news could be presented in ways that the audience found more useful. However, it is possible that the increased supply of economic news by the media has added to demand. The media can't impose an agenda on an audience that is uninterested and unsympathetic. But they can, and often do, reinforce and heighten an interest that is pre-existent.

As to the quality of all this reporting, the kindest judgment is that it is very mixed. It is subject to many of the biases I have outlined: exaggeration of importance, over-emphasis on the hip-pocket implications (real or imagined), greater prominence for bad news and reflection of the audience's prejudices and misperceptions. As an example of the latter, falls in the exchange rate are invariably portrayed as a bad thing. As an example of the over-emphasis on the hip-pocket—and consequent trivialising of economic news—I remember that the media reaction to the Campbell Committee's report on financial deregulation focused almost exclusively on the shocking suggestion that the Government remove the ceiling on home-loan interest rates.

5. The Media and the Financial Markets

Much of the increase in economic reporting seems to be linked with the deregulation of

financial markets. A symbiotic but in some respects unhealthy relationship seems to have developed between the media and the markets. Both institutions have a focus on daily occurrences—that is, they are intensely myopic. Both institutions have a vested interest in the volatility of economic indicators and financial prices—because it gives the media news to sell and increases the markets' opportunities to make profits (or losses) through trading. And both are concentrated in the same city, Sydney—increasing the opportunity for social interaction. The two institutions feed off each other. News editors seem to have acquired an exaggerated impression of the wider economic significance of relatively small and often transitory movements in financial prices. These movements are described in colourful language: exchange rates and interest rates perpetually plunge, dive, leap and soar. The markets' tendency to react to economic indicators adds frisson—newsworthiness—to those events; any indicator that is closely watched by the markets will be widely reported by the media.

The media can't merely report movements in market prices, they have to develop the story by offering an explanation of why prices moved in the direction they did. Usually, this is done by junior financial reporters who patch together a consensus view drawn from phone calls to a handful of market participants. Then the media take the story further by drawing out the possible hip-pocket implications for households and speculating about a government policy response.

The media's exaggerated view of the wider economic significance of movements in market prices has given the markets an exaggerated view of their own importance. As well, the media's focus on the markets has increased the markets' ability to influence policy.

The media are an important channel by which movements in market prices impact on the real economy via confidence effects. It may be that these confidence effects are as significant as the actual movements in prices.

The media are also an important mechanism by which market participants communicate with each other. Take the sharp rise in long-term bond yields that began in February 1994. In that episode, market participants may not have begun with a unified view that yields were rising because of market fears about rising inflation, but by the time the media had finished telling *all* participants about the inflation fears of *some* participants, *all* participants were in no doubt about why yields were rising.

This means, too, that the media play an important part in establishing the conventional wisdom—the ex-post rationalisation—as to why sustained movements in market prices have occurred.

6. A Critique of Economic Reporting

It can be argued that we suffer from too much economic reporting, that we are taking the economy's temperature too often. The prominence given to monthly and quarterly economic indicators has outstripped the ability of the public (and even of some reporters) to make sense of the information they are being bombarded with. Many seasonally adjusted indicators are quite volatile from month to month; a surprising number move in a saw-tooth pattern. The public is being told that the economy is overheating one week and losing steam the next. This is the 'thrills and spills' approach to economic reporting. It adds significantly to the 'noise' in which policy-makers and policy advisers work, exposing them to almost continuous pressure and temptation to adjust policy settings.

This is not to imply that we would be better off if indicators were published less frequently. Though the public might receive fewer conflicting messages about the state of the economy, so would those better equipped to interpret such messages, including the managers of the economy. That would be too high a price to pay. The ideal solution would be for the media to pay more heed to the injunction of economists—and, indeed, the Statistician—not to make too much of 'one month's figure'. They could do so simply by focusing their reporting on the Statistician's trend estimates. But I fear this is a pious hope. The media have a vested interest in volatility and, because they are daily, will always emphasise the incremental information simply because it arrived today.

A related criticism of economic reporting is that the media's preoccupation with day-to-day movements in financial prices and month-to-month movements in macro-economic indicators is crowding out reporting and analysis of the forests of economic reports being published by government committees, parliamentary committees, departments, research bureaus, private think-tanks and university research centres. In other words, short-term macro-economics is crowding out micro-economics. The public, and even professional economists, have neither the time nor the money to buy and read government reports. They rely on the press to provide them with summaries and analysis of reports, and alert them to the existence of reports of particular interest that they may wish to get hold of. A report that isn't read makes a negligible contribution to the economic debate. But many reports go virtually unreported and most go under-reported. In this respect the quantity of the media's economic coverage doesn't make up for its low quality.

The media's traditional perception of themselves as engaged in the objective reporting of facts, with no intrusion of journalists' opinion, is nowhere more inaccurate than in economic reporting, particularly in the quality press. Economic reporting is highly interpretive; opinion is not always restricted to separately labelled 'comments', but often is mixed in with the facts in news stories. When Dr Chris Caton returned to Australia after working for many years in the United States, he was struck by the impression that, whereas in America the media reported the game, in Australia they tended to join in the game.

I think the Australian approach can be defended—up to a point. The Australian press is more advanced than the US press in the belief that economic news is too complicated for it to be reported adequately by generalist reporters. Facts have to be selected and they ought to be selected by journalists with some understanding of the subject. Once a breed of qualified, specialist economic journalists has been assembled, it is appropriate for them to give their non-economists readers some guidance as to what the facts mean. Problems arise when unqualified or inexperienced journalists are permitted to perform this larger role, when their work isn't adequately supervised, and when journalists stray from providing explanation and background to expressing 'pure' opinion of approval or disapproval.

I might add that the print media's increasing use of specialist economic journalists to provide analysis and opinion represents an attempt to differentiate their product from that of the electronic media and to exploit their medium's comparative advantage. Newspapers are no longer first with much of the economic news. Official economic statistics, for instance, are released at 11.30 am. So by the time readers pick up their newspapers the following morning, they are already well aware of the main facts of the CPI, the unemployment figures or whatever. The press has to give its readers something more than the main facts: more details, more explanation of what the facts mean and more discussion of the wider ramifications.

7. Governments' Use of the Media in the Economic Policy Process

In considering the media's role in the formulation of economic policy, we should start with the use that policy-makers and policy advisers make of the media. First, they use the media to 'sell' their economic policies; to generate public and interest-group understanding of, and approval of, their present and proposed policies. It's essentially a process of explanation: explaining the objectives and mechanisms of policies; explaining the need for unpopular measures. This can be democracy at its best—encouraging an informed 'economic debate'—or it can be more manipulative, conditioning expectations and softening up the electorate for unpalatable news. In the run up to a Budget, for instance, it's usual to leak details of most of the unpopular measures, but keep the popular measures for unveiling on the night, thus increasing the likelihood that the media's initial reaction to the Budget will be favourable.

Second, ministers and their departments sometimes use the media to help fight their battles in Cabinet by persuading economic commentators to take up the cause. This tactic can be counterproductive if Cabinet decides it's

being got at. Many leaks of Expenditure Review Committee decisions to cut spending programs represent attempts by the particular department to overturn the decision by mobilising the affected interest groups. Here you see an example of a common transaction between journalists and people within government. The leakers' motive is highly self-interested and their behaviour is clandestine. The journalists are well aware of this but don't care because, by co-operating, they are 'imparting information to others' and 'uncovering and publicising problems'. What's more, they know the story is highly newsworthy and will attract the envy of their colleagues!

Third, policy-makers use the media for feedback from the electorate and interest groups. Kite-flying is just one form of feedback. The media reaction to an Industry Commission report will have an influence on whether its recommendations are accepted.

8. The Role of Economic Commentators

Now let's turn to the role of the print media's economic commentators—a very small group of economics editors and other professional columnists who can be numbered on two hands. (Though Australian editors prefer to employ their own commentators, the two national dailies have in recent years added the contributions of a few outside economic columnists, mainly former politicians and academics. Their motive is to increase and widen the range of views, but not necessarily to provide contrary views to those of their professional columnists.)

A survey of about 100 business, financial and economic journalists conducted in 1991 by the Australian Centre for Independent Journalism at the University of Technology, Sydney (ACIJ 1993) asked them how they rated various aspects of their work. More than 90 per cent rated 'imparting information to others' as either essential or very important. 'Uncovering and publicising problems' scored 80 per cent and 'being among the first to know what's going on' scored 55 per cent. But motivations such as 'influencing public policy decisions', 'influencing the public', 'influencing business decisions' and 'expressing yourself' each scored only about 20 per cent. And 'championing particular values and ideas' scored only 15 per cent.

I don't doubt that these results are a reasonably accurate reflection of the motivations of business and economic reporters—and, indeed, journalists in general. They see themselves as informers, not reformers. But our select band of economic commentators are not reporters, they are columnists. And most economic commentators undoubtedly do see influencing public policy decisions, influencing the public and championing particular values and ideas as important aspects of their job. They are the group of journalists most prone to campaigning on issues—certainly more prone than political commentators. They feel free to take sides on policy issues because they do stick to issues and don't expect to be seen as merely political partisans.

With respect to policy, economic commentators see themselves as having two main roles: to try to explain government economic policy and to try to change government economic policy. Some individuals give more weight to explaining, some to changing. To a commentator, explaining comes under our earlier heading of 'imparting information to others'. When commentators seek to explain the economic policy of the government of the day they are acting on the other side of the policy-makers' and, more usually, the policy advisers' efforts to use the media to 'sell' government policy. When commentators seek to change economic policy they often do so with the tacit encouragement of policy advisers, who believe their political masters need to be encouraged in good works.

As economists, economic commentators are not original thinkers doing original research; if they were, they'd be in universities. They write on a wide and ever-changing range of economic policy issues, whereas most economists—academic and practicing—are highly specialised. They work by following economic developments closely and keeping in constant consultation with other economists, who provide them with information, explanation and intellectual stimulus. Because they write

mainly about the state of the macro economy and about policy issues, their chief contacts are with the bureaucratic policy advisers in the Treasury, the Reserve Bank, the Industry Commission and other government departments and agencies. These 'contacts' provide a more detailed, sophisticated and frank exposition of the reasoning behind policy decisions, and of the pros and cons of policy options, than is provided publicly by their political masters. The advent of a small army of ex-econocrats employed in the financial markets has, however, made the press commentators less reliant on bureaucratic contacts for macro-economic issues. In my experience, commentators would like to make more use of academic contacts, but generally find that they aren't familiar with the latest developments (which are the commentators' focus) or aren't sufficiently 'applied' (and it's surprising how often they seem to be overseas when you need them!). All this may help explain why it's uncommon to find commentators running a line consistently critical of the Treasury or the Reserve Bank—though it's not uncommon to find them consistently critical of the government of the day. It should also be remembered that there are well-established policy divides within the bureaucracy—such as Treasury versus the Department of Industrial Relations on wage-fixing, and the Industry Commission versus the Department of Industry on industry policy.

Despite their close contacts with the bureaucracy, economic commentators are free agents. They make their own decisions about the extent to which they will rely on government sources for column ideas, they choose the particular econocrats to whom they talk, and they decide which government policies they will help to sell and which they will oppose. Indeed, they like to see themselves as fearless critics of government policies and performance. As a class they have a pathological fear of being seen as apologists for the government of the day. When they view the Labor Government's many reforms of the past decade they would like to believe not that they helped it achieve those reforms, but rather that they obliged and persuaded it to make them. The truth, no doubt, is in the middle.

9. The Economic Commentators and Economic Rationalism

It would be a mistake to think of economic rationalism as a phenomenon that sprang from nowhere soon after the election of the Hawke Government. What occurred in the 1980s was a coming to the fore of views that had long been part of the Treasury Line and which had long been shared by the older economic commentators—as witness, their long-standing crusade against protection and their criticism of the Arbitration Commission, wage indexation and the arbitration system. Equally, it would be wrong to see the rise of economic rationalism as a purely Australian phenomenon (though just as wrong to see it as a local cover-version of Reaganomics or Thatcherism). Economic rationalism—a term that was in currency among econocrats long before it was picked up by Michael Pusey—is the local manifestation of the world-wide revival of economic liberalism, with academic antecedence in new classical economics and public-choice theory. Here, as elsewhere, it was fostered by a decline of faith in the effectiveness and sufficiency of traditional demand management. As for the reform that got the ball rolling in Australia, financial deregulation, we were neither the first nor the last country to make such changes and to make them in response to global developments that left us little choice.

Even so, it can fairly be said that economic rationalism and its policy expression, micro-economic reform, were 'sold' by the econocrats to a Hawke Cabinet composed of ministers who were younger, better educated, more economically literate and more disposed towards policy reform as such than any Cabinet that had gone before. With a few notable exceptions, the economic commentators needed little persuading to join in the selling job. They sold it—and still sell it—to their readers and to the Government's caravan. Why were they such willing recruits to the cause? Partly because of their close links with the bureaucrats. Also because, though all economists are susceptible to intellectual fashion, economic journalists are, by the nature of their jobs, more susceptible than most. The news media are

about the latest; economic journalists have to be up with the latest. Someone who swims perpetually against a popular tide is easily seen—by readers and editors—as just not up with it. There is, however, a more fundamental explanation: the economic commentators and the econocrats went to the same university. They had the same schooling in neoclassical economics; they shared the econocrats' world view.

At the time most of the policy changes were implemented the economy was growing strongly. Doubtless there were dissenting views, particularly among academics, but they were muted. The media did little to seek them out but, to my knowledge, neither did they decline to publish the contributions of experts anxious to have their dissent recorded. Editors are not averse to controversy. The great reaction against economic rationalism came in retrospect, after the recession of the early 1990s was under way and when it was easy to claim that economic rationalism had not only failed, but actually had caused the recession. As part of the post-mortem, Schultz (1992) asked: 'Where are the Alternative Views?'. That is a question to be asked of the possessors of alternative views, and of editors responsible for presenting a range of views, not just of the economic commentators. For the most part, the commentators' views were not alternative.

What I would concede is that the commentators participated in the 'over-selling' of the benefits of the early micro-economic reforms—in particular, financial deregulation. They failed to foresee the extent of the transition problems and adjustment costs that would arise. But they were not alone in this, and the Reserve Bank has made similar admissions (Macfarlane 1991). It may be that any fears that arose in the commentators' minds were suppressed in the interests of 'making the sale'; it's more likely that they simply lacked the perception to foresee the shoals that lay ahead.

10. The Influence of the Economic Commentators

I have focused so far on the role of the small group of economic commentators employed by the quality press. But the other class of media worker most active in the expression of economic opinion is a very different group: the radio talk-back hosts. It's been observed that whereas the views of the newspaper commentators tend to be very orthodox, restrained and intellectually respectable, the views expressed by the talk-show hosts are often ill-informed, strident and populist. Why should this be so? Much of the explanation lies in the two media's differing 'target markets'. The quality press (and its advertisers) aims for the upper socio-economic groups, including business and professional people and the growing minority of the population with university educations. It is at the cerebral end of the media spectrum and it acts accordingly. In contrast, commercial radio (and its advertisers) aims for a mass market of ordinary Australians, people with few intellectual pretensions. Newspaper commentators aim to inform their readers; talk-back hosts aim to provoke a lively exchange of listeners' views by giving them something to be indignant about. The broadcasters seem to have discovered that the opinions which attract the most calls (and listeners) involve intolerant populism; 'the government' is an easy mark. Talk-show hosts cover economic issues among a host of others; few if any would have economic training; many are not actually journalists—that is, they have no background in factual reporting. In contrast, newspaper economic commentators specialise in economics and have economics degrees. Their ease of access to senior econocrats, and the frankness with which econocrats speak to them, is partly a function of their contacts' judgment as to the journalists' depth of understanding of economics. This is a powerful factor in keeping their commentary intellectually respectable.

How influential are the talk-show hosts on economic issues? I believe that, as a group and in concert with their callers, they are quite influential, though in a strictly negative way. If, after a policy has been announced or foreshadowed, the callers run loud and long in their opposition, not infrequently the policy will be abandoned or modified.

How influential are the print media economic commentators? More than they would admit, but less than you may imagine. Readers'

minds are not blank pages on which journalists write. Newspapers offer a smorgasbord of stories from which readers pick according to their tastes. Readers tend to read more for reinforcement than enlightenment; they keep reading the things they agree with and stop reading things that make them feel uncomfortable. They tend to remember things that fit with their pre-existing belief structure and tend to forget things that don't fit. They absorb what they read through the filters of their own values, prejudices and experience, and frequently take away a meaning quite different from the one the author intended to convey.

Commentators' ability to influence public opinion is further reduced by the fact that they often are selling propositions that are counter-intuitive: protection doesn't save jobs, technology doesn't destroy jobs, minimum wages don't protect the poor, and so forth. So the commentators' influence is probably greater on 'elite opinion' than on popular opinion. By elite opinion I mean the opinions of people active in business and trade union interest groups, members of political parties, backbenchers, ministers and shadow ministers, their staffers and bureaucrats.

There is, however, a second channel through which the newspaper commentators exercise influence. Their columns are read by other journalists in all the media, including political journalists, journalists reporting economic news and the talk-show hosts. So they have some influence over the rest of the media's understanding of what it all means and which issues are more important than others. But you would have to say that it's a limited influence. For instance, the commentators have not succeeded in persuading their colleagues that the size and timing of asset sales are of little macro-economic consequence.

Though it's no doubt true that some commentators have more influence than others, I believe it's mainly the preponderance of commentators' opinion that has influence. When most of them are pushing in the same direction and for a sustained period, that eventually will have an effect on elite opinion and, through that, on economic policy. It's a process of wearing away the stone, of helping to create a conventional wisdom to which the policy-makers respond.

It follows from this that economic commentators are probably more influential in matters of micro-economic policy than macro-economic policy. You may think that commentators, in concert with the financial markets, exercise significant influence over the size of the deficits governments budget for. But a former deputy secretary in the Prime Minister's Department (Sims 1994) has observed that politicians are well aware of the ease with which they can influence the yearly debate on the size of the deficit. 'Deficit discussion rarely seems based on objective assessment, but instead on whether or not the Government jumps its own deficit hurdles', he wrote. Commentators, as a class, seem to be more influential in the micro-economic area, where they pick up ideas, popularise them and press governments to act. Most governments want to perform great acts of reform, but they want also to survive. The commentators' role is to help create a climate of elite opinion which convinces governments that they can make the necessary policy changes without endangering their survival.

The most striking example of this process is the commentators' role in tariff reform. Over a period of 20 years or more, elite opinion—but not, let it be noted, popular opinion—swung away from support for protection, to the point where the Hawke Government was emboldened to announce its virtual phasing out. The Government did so with bipartisan support and surprisingly little criticism. Bob Hawke's announcement of the second stage of the phase-down, in March 1991 during the depths of the recession, was greeted by the media—the economic commentators—as an act of historic significance and great statesmanship. Why the sea-change in elite opinion on protection? You'd have to give a lot of the credit to the Industries Assistance Commission, which campaigned tirelessly for tariff reform over many years. But you would also have to give a lot of credit to the economic commentators, who—led by Alan Wood—also campaigned tirelessly over many years. To put it bluntly: the IAC made the bullets and the commentators fired them.

This, I think, tells you a lot about the economic commentators' role in the formulation of economic policy. You can see them playing a similar role in the moulding of elite opinion in favour of decentralised wage-fixing and the deregulation of the labour market—although it is significant that, in this instance, fewer of the bullets they are firing have been fashioned by the bureaucracy.

11. Conclusions

It is clear that the media play a significant role in the formulation of economic policy, but the role they play is far from clear. They provide the forum in which the economic debate is conducted, and conducted on at least two levels: elite opinion and popular opinion. The media carry messages in both directions between the rulers and the ruled, but they don't do so in a neutral way. They select the messages they carry and the degree of prominence given to them on the basis of their perceived newsworthiness, a process which imparts significant biases to the communication process.

Media coverage of economic matters is predominantly concerned with the reporting and interpretation of news about short-term movements in the macro economy. The media exaggerate the significance of the inevitable volatility in financial prices and economic indicators. This increases the 'noise' in which the macroeconomic policy-makers work, adding to the difficulties of their task and possibly encouraging them to adjust policy settings more often than they otherwise would. The media's coverage of the debate about micro-economic policy issues is much more cursory.

Policy-makers and advisers make considerable use of the media to 'sell' policy changes to the electorate in general, but also to the opinion-making elite. Economic commentators are one of the main vehicles through which policy-makers and advisers seek to influence elite opinion. But, though they are open to manipulation, economic commentators are not passive agents in this process. They choose the issues on which they will campaign. Their influence on economic policy formulation is probably more indirect (that is, via their influence on the general climate of elite opinion) than direct (in the sense that they suggest specific policy ideas which are new to the policy advisers, or that policy-makers read newspaper articles and act on them). Individual commentators probably don't have all that much influence, but when the commentators as a group take up causes and pursue them over sustained periods, they can shift the conventional wisdom and create a climate in which governments respond to pressure for policy reforms, secure in the belief that they are not moving ahead of elite opinion.

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The economy. How do the media cover it and what are the effects? A literature review

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Abstract
This article provides an overview of key findings in the field of economic news research. The focus is on the relationship between the real economy and economic news, and the subsequent effects of economic news on people's economic perceptions. Additionally, we discuss research that looks into the construction of economic and financial news. Recommendations for future research relate to the application of mixed methods approaches and individual level studies, and a specific focus on new (social) media.

1 | INTRODUCTION

It is a phenomenon as ubiquitous as it is elusive: the economy. When asked, most people have an idea—by and large—of how the national economy is doing. Some have personally experienced certain economic advancements or setbacks or know, for example, people who recently found or lost a job. However, more than by such first- or second-hand experiences, people learn about the state of the economy by reading and watching the news. Economic news stories shape people's economic perceptions, which, in turn, have profound impacts on a range of other attitudes and behaviors, and sometimes even again on the economy itself.

The interrelationships between economic news, economic perceptions, economic conditions, and other (political) attitudes and behaviors have been the focus of research for decades. Besides the work on the *effects* of economic news, there is a vast body of research that focuses on the *content* of economic news, showing how economic news is characterized by a set of specific features. A strand of mostly qualitative research has focused on the process of economic news *production*, in which different actors with different views on the economy and its management compete for limited media space in an ongoing power struggle.

From a societal perspective, it is imperative to study economic news—both its content and its effects—because it has such a strong bearing on the daily lives of citizens. Whether news reports deal with unemployment rates, with inflation, or with bailout programs for bankrupt Eurozone member states, people are sensitive to the message and tone of the content, especially when the news is negative. Moreover, the impact of economic news on people's economic perceptions has subsequent consequences for a range of political behaviors, such as party preference (e.g., Kalogeropoulos, Albæk, De Vreese, & Van Dalen, 2016; Lewis-Beck & Stegmaier, 2000; Nadeau, Niemi, Fan, & Amato, 1999; Sanders, 2000).

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From an academic perspective, economic news comes with unique features rendering it an interesting topic to study media effects. The availability of standardized economic data is high, facilitating comparisons between real-life trends and economic news in different contexts, often a more complicated endeavor in other areas such as crime, foreign affairs, or the environment. As Soroka (2014, p. 83) puts it: “It allows us to explore the difference between the distribution of information in reality and the distribution of information in news content.” This is not to say that economic news is neutral or unidimensional, for a variety of reasons it is not. But news reports about decreasing or increasing unemployment rates, or a growing or shrinking economy, do lend themselves to be compared with over-time trends in the actual measurements, allowing to assess real-world reflectiveness of certain news content. This article provides an overview of the key findings in the field, shedding light on what we know about economic news, and what is still to be learned.

2 | THE ANTECEDENTS OF ECONOMIC NEWS

2.1 | Real economy and economic news coverage

In the mid-1970s, one of the first studies comparing the real economy to the content of economic news stated: “The model of the economic story, especially as told on television, is the soap opera” (Stein, 1975, p. 40). Despite the inherent complexity of the economy as a phenomenon, the media show a persistent tendency to simplify and to excessively dramatize. The consequences of this reporting are, as economist Herbert Stein argues, “hard to evaluate, because we do not know to what extent public opinion is formed by the media” (Stein, 1975, p. 41). More than 40 years later, Stein's first observation has not lost the slightest relevance: The economy is still complex, arguably much more complex today than it was in the 1970s, and economic news is still characterized by several persistent biases. But in contrast to Stein's second observation, we now have some ideas about the consequences of economic news due to decades of research, on which we reflect below.

The tendency among journalists to dramatize the state of the economy is confirmed by many empirical studies. The 1992 US Presidential elections have been a catalyst for research into the content of economic news, since these have made clear how economic news rather than real economic circumstances have the capacity to shape electoral outcomes. In the US, Goidel and Langley (1995) are among the first to systematically investigate the responsiveness of economic news to real economic conditions, concluding that the media have “plenty of latitude in deciding what economic news is important, and this latitude is exercised by focusing disproportionately on bad economic news” (Goidel & Langley, 1995, p. 320). This observed *negativity bias*—the tendency to systematically devote more attention to negative as compared to positive economic trends—is not a stand-alone finding but reflects a rather generalizable pattern in economic news reporting.

Scholars find negativity biases in macroeconomic news reporting (Damstra & Boukes, 2018; Fogarty, 2005; Hagen, 2005; Hester & Gibson, 2003; Ju, 2008; Soroka, 2006, 2014; Soroka, Stecula, & Wlezien, 2015; Van Dalen, De Vreese, & Albæk, 2015; Wattenberg, 1985) and news about unemployment rates (Soroka, 2012). Although most research focuses on print media, television broadcasts are also found to foster a preference for bad news when reporting about macroeconomic developments (Hester & Gibson, 2003) or about economic subthemes such as inflation and unemployment rates (Harrington, 1989). An area still understudied is how economic news is reported on social media. In a recent exploratory study, Soroka, Daku, Hiaeshutter-Rice, Guggenheim, and Pasek (2017) find that the tone of Twitter posts is more responsive to positive economic shifts, in contrast to traditional outlets.

An exceptional finding is provided by Casey and Owen (2013), who investigate the antecedents of economic news in the US (1983–2008) and who do not find a structural (negativity) bias. Similarly, in the context of the financial crisis, Schifferes and Coulter (2013) conclude that the *BBC* news website provided a rather balanced output in terms of positive and negative coverage. Notwithstanding these exceptions, research repeatedly suggests a rather

robust tendency in economic journalism to overemphasize negative trends, which might lead to a distorted information environment for citizens, at least in modern Western democracies.

In terms of newsworthiness, not all types of economic developments are considered equally important. Several studies point to a remarkable sensitivity among journalists towards shifts in unemployment rates (Fogarty, 2005; Goidel & Langley, 1995). Fogarty (2005) finds that changes in unemployment rates lead to more economic news, while changes in inflation rates or ICI (index of coincident indicators) do not lead to more coverage. Arguably, this may be explained by the abstractness of the latter issues. Additionally, Soroka et al. (2015) investigate whether news content is most reflective of past, current, or future economic trends. While often perceived as a function of current economic conditions, the authors find that economic news is actually more reflective of future conditions: “It responds more to where the economy is going, not where it has been or where it currently is” (Soroka et al., 2015, p. 467).

2.2 | Specifying the measurements

The idea of mass media producing content that is systematically more negative than economic reality gives reason to is based on two types of findings: (1) a bad economy leads to *more* economic news, and (2) a bad economy leads to *more negative* economic news while a good or improving economy does not lead to more positive coverage. While some studies take either volume or tone as their main dependent variable (e.g., Goidel & Langley, 1995), most recent research looks at both (e.g., Fogarty, 2005; Lamla & Lein, 2014; Soroka, 2012, 2014; Soroka et al., 2015; Van Dalen et al., 2015). Volume is most often operationalized straightforwardly as the number or share of economic news items per time unit (print or television), while tone captures the general sentiment of an economic news item (i.e., valence: positive or negative). In some cases, volume and tone are captured simultaneously in a single measurement, such as the number of recession headlines in the *New York Times* (e.g., Wu, Stevenson, Chen, & Güner, 2002).

On the side of the real economy, as explanatory variable in such analyses, it is increasingly common to distinguish between levels (e.g., absolute unemployment rate) and changes (e.g., the development—up or downwards—of the unemployment rate). Stimson (1991) is among the first to stress that journalists are particularly responsive to change: “Journalists pursue ‘news’ as a criterion of relevance. Change is news. Stability isn't.” (Stimson, 1991: xxiii). Following this line of thought, Nadeau et al. (1999) argue that journalists respond to *shifts* in objective economic indicators, rather than to levels, which is empirically confirmed by their data. Just like novelty, change is a defining feature of newsworthiness; for that reason, changes in the real-world economy are more likely to be selected as news (Galtung & Ruge, 1965; Soroka et al., 2015).

Following news values theory, it can be anticipated that negative change (i.e., economic downturn) is particularly newsworthy to journalists, since it combines two classic news values: novelty and negativity. This is empirically confirmed by recent research finding positive effects of economic decline on the volume of economic news (Damstra & Boukes, 2018; Van Dalen, De Vreese, & Albæk, 2016) while positive economic developments in terms of recovery or growth do *not* trigger journalists to write more about the economy. A similar asymmetry is found for the tone of news; negative economic trends lead to more negative coverage, while the opposite effect of an improving economy fails to happen (Damstra & Boukes, 2018; Fogarty, 2005; Goidel & Langley, 1995; Soroka, 2006; Van Dalen et al., 2015).

2.3 | Explaining the negativity bias

In explaining the prevalence of negative news stories, many scholars point to the role of the media as “fourth estate.” Traditionally, journalists are argued to fulfill a watchdog function in modern democracies; they scrutinize and control governmental powers, rendering it responsive and responsible (Kantola, 2007; Whitten-Woodring, 2009), a function that can also be deployed to control business actors (Kalogeropoulos, Svensson, Van Dalen, De Vreese, & Albæk, 2014). From this perspective, it is only logical that negative trends receive more attention than positive

developments: To wake up the citizenry, jounalists should ring the "burglar alarm" when the economy moves in the wrong direction, so people can defend their interests in future elections (Zaller, 2003).

Research, however, shows that economic and financial journalists hold divergent views when it comes to this role (Strauß, 2018; Tambini, 2010; Usher, 2012). Tambini (2010) finds that only a small minority of UK financial journalists actually perceives themselves as watchdogs. Usher (2012) identifies two lines of reasoning (or "defense" as she puts it) as brought forward by *New York Times* journalists who she interviewed. First, journalists primarily identify with a "transmission" role: It is their task to provide accurate information, but it is up to the public to respond adequately (Usher, 2012, p. 203). Second, journalists are hampered to perform as watchdogs because they do not have enough access to necessary information. These arguments are in line with a recent study by Strauß (2018) who points to a discrepancy between the watchdog role that journalists envision for themselves and their actual role enactment. These findings touch upon a core challenge posed to economic journalists. The complex economic-financial reality combined with increasing institutional pressures makes investigative journalism a costly and risky endeavor, while it is precisely through investigations and critical in-depth news reporting that the watchdog role can be fulfilled adequately.

News values theory provides another explanation for the prevalence of negative news. References to something negative make a story more likely to be selected by journalists (e.g., Galtung & Ruge, 1965; Harcup and O'Neill, 2001) because bad news tends to be consensual and unambiguous as well as unexpected, presupposing "a culture in which progress is somehow regarded as the normal and trivial thing that can pass unreported" (Galtung & Ruge, 1965, pp. 69–70). Together, these features make negative phenomena more likely to be selected as news.

In addition, work on behavioral economics has shown how people are more responsive to negative compared to positive information (e.g., Holbrook, Krosnick, Visser, Gardner, & Cacioppo, 2001; Soroka, 2006): They are loss aversive. The psychological process behind this asymmetry is described as the negativity effect: The greater weight assigned to negative as compared to equally positive information in the formation of judgments (Ahluwalia, 2002; Tversky & Kahneman, 1973, 1974). As journalists are individuals too, their own (asymmetric) interests combined with the (asymmetric) interests of their news-consuming audience might lead them to perceive negative information as more important (Soroka, 2006, p. 374).

2.4 | External factors

A number of external factors is identified that influence the relationship between the real economy and economic news. First, on the level of the media organization, scholars point to endorsement policies by outlets as a possible moderator of news selection processes. In the US, where many media outlets have a clear political leaning, democratic media are found to stress negative economic conditions (e.g., high unemployment rates) more strongly when the incumbent is a Republican (Larcinese, Puglisi, & Snyder, 2011). In the European context, evidence suggests a similar effect of ideological orientation on the interpretation of economic news by journalists (Salgado & Nienstedt, 2016). Also, the type of outlet could play a role: Popular (e.g., tabloids) and regional media outlets seem to emphasize negative economic news more than quality and specialized media (Boukes & Vliegenthart, 2017).

Second, economic conditions might be of influence. Wu et al. (2002), for example, find that news is least reflective of the real economy during recessionary periods (1987–1990), when the prevalence of negative information exceeds the (already gloomy) economic conditions. In fact, "the mass media reflected more of the public's perception about the economic situation and less of the economic reality" itself (Wu et al., 2002, p. 30).

Finally, building on the idea of a limited carrying capacity by the media (Hilgartner & Bosk, 1988), Fogarty (2005) looks at whether the presence of rival stories changes the relationship between the economy and coverage. He finds that news reports dealing with the first Gulf War or with US fighting in Somalia indeed tend to suppress the amount of economic news coverage, making the correlation between the real economy and economic news weaker (see also Reese, Daly, & Hardy, 1987). In contrast, election campaigns serve as an *amplifier* of economic news, strengthening the bond with the real economy (Fogarty, 2005).

2.5 | Structural constraints

Quantitative research offers important insights into the structural biases distinguishing economic news from economic reality. Qualitative research, additionally, lays bare the mechanisms of economic and financial news production, critically assessing the factors at play that determine which issues receive attention in the first place, and how these issues are covered in terms of framing.

Media content is not neutral. In fact, it is a social construct and, therefore, often ideologically colored. The vast majority of the economic/financial press tends to support the neoliberal status quo, thereby failing to offer a wider range of other perspectives to the public, most notably perspectives that critically challenge existing capitalistic structures (e.g., Berry, 2012, Berry, 2015, Berry, 2016; Chakravartty & Schiller, 2011; Damstra & Vliegenthart, 2016; Davis, 2006, Davis, 2011; Doyle, 2006; Durham, 2007; Duval, 2005; Jensen, 1987; Marron, Sarabia-Panol, Sison, Rao, & Niekamp, 2010; Philo, 1995; Philo, Miller, & Happer, 2015; Tambini, 2010; Tracy, 2012). In general, a certain bias in the selection of news stories is inextricably linked to news production processes: (National) cultures, organizational structures, ideological outlet profiles, and differential power of political and societal actors, as well as the choices by individual journalists—all have an impact on the construction of news content (Vliegenthart & Van Zoonen, 2011). As a result, news tends to be characterized by negativity, conflict framing, and an overrepresentation of the views of those having political power (Bennett, 1990). However, the specific nature of economic news leads to an additional, more issue-related bias: Journalists are guided by certain considerations regarding the “utility and levels of financial literacy” among their target audience (Doyle, 2006, p. 436). In other words, the high complexity of the economic and financial world requires that journalists tailor their stories to their readership in terms of comprehensibility.

As a result, two types of financial journalism have emerged over the years: (a) specialist financial journalism serving a selective audience of financial professionals and (b) generalist financial journalism that focuses on informing the broader public (Schifferes, 2011). For mainstream, nonfinancial media, this implies that economic news needs to be easy to grasp and entertaining (Clark, Thrift, & Tickell, 2004; Guerrera, 2009), which results in an overrepresentation of superficial news about well-known companies and big money deals (Doyle, 2006; Tambini, 2010; Tumber, 1993), at the expense of more critical, in-depth analyses key to investigative journalism. Additionally, with financial markets becoming increasingly complex, journalists themselves are often lacking the specialized knowledge to critically assess financial products and practices (Davis, 2006; Doyle, 2006; Guerrera, 2009; Marron et al., 2010; Schifferes, 2011; Schiffrin, 2015; Tambini, 2010; Tett, 2009; Usher, 2012).

Due to this increasing complexity, economic/financial journalists are often in a position of high source dependency. As Tambini (2010, p. 159) puts it, “interested parties […] sometimes constitute the only repositories of relevant data and (they) employ the main experts.” Therefore, journalists—themselves lacking both expertise and access—need to rely on these elite sources, which generally do not bring forward radical critical perspectives. As a result, stakeholders—through their PR services—are able to control information. This elite source dependency is empirically confirmed by many studies (Berry, 2015, 2016; Davis, 2000; Fahy, O'Brien, & Poti, 2010; Galbraith, 2004, 2009; Kollmeyer, 2004; Manning, 2013; Rafter, 2014; Reich, 2012; Strauß, 2018; Tambini, 2010; Thompson, 2013; Tracy, 2012) and comes at the expense of the use of, for example, union leaders or workers as primary sources (Kollmeyer, 2004). Also compared with other types of news reporting—political, territorial—economic journalists use least diverse sources (Reich, 2012).

Furthermore, the close ties connecting (financial) journalists to (financial) experts carries the risk of the former being “captured” by the system of the latter. This can be illustrated by, for example, financial outlets receiving huge advertising revenues from credit card companies (Davies, 2009; Davis, 2002, 2011; Kollmeyer, 2004; Marron et al., 2010; Schechter, 2009; Tambini, 2010) or financial reporters “crossing the aisle” and start working for financial corporations (Schechter, 2009). This close interconnectedness is argued to (partly) account for the fact that the news media were caught by surprise when the 2008 financial crisis broke out and left many wondering why (almost) nobody had seen it coming, including highly esteemed financial media (Berry, 2012; Fraser, 2009; Guerrera, 2009; Fahy et al., 2010; Lashmar, 2008; Marron et al., 2010; Mercille, 2013; Schechter, 2009; Schifferes, 2011, 2012; Tambini, 2010; Tracy, 2012).

Furthermore, institutional pressures reinforce the tendency by the media to report in a way that is compatible with dominant perspectives as put forward by (economic and political) elites. Media outlets themselves are commercially driven enterprises as well (e.g., Davis, 2000; Doyle, 2006; Guerrera, 2009; Hamilton, 2009; Happer, 2017; Knowles, Phillips, & Lidberg, 2017; Philo et al., 2015; Schechter, 2009). The professional environment in which journalists operate has become increasingly competitive, due to institutional pressures related to declining readerships, insecure advertisement revenues, increased output demands, and the rise of free online data services. This has resulted in a branch with high degrees of compartmentalization (Schifferes, 2011; Tett, 2009), in which “expensive and risky ventures such as investigations are increasingly difficult to fund” (Tambini, 2010, p. 169).

The financial crisis (2008–2009) has served as a fruitful test case for the analysis of existing biases in financial and economic news reporting. Often departing from the question why the media did not see it coming (e.g., Fraser, 2009; Lashmar, 2008; Starkman, 2009), scholars scrutinized the way in which the crisis was covered (Arrese & Vara-Miguel, 2016; Berry, 2012; Damstra & Vliegenthart, 2016; Happer, 2017; Pirie, 2012; Schifferes & Knowles, 2014) in multiple contexts. It is concluded that media covered the crisis rather uncritically, depriving the audience from a diverse array of possible solutions to it (Arrese & Vara-Miguel, 2016; Berry, 2012; Happer, 2017; Mercille, 2013; Pirie, 2012). The fact that even the most encompassing crisis of our times did not evoke more radical and critical responses underscores the dominance of the neoliberal paradigm in economic news reporting (Happer, 2017) and the difficulty for journalists to forge new ways to analyze outside the prevalent market-driven consensus (Arrese & Vara-Miguel, 2016, p. 150).

3 | THE EFFECTS OF ECONOMIC NEWS

3.1 | Media effects on consumer confidence

Exposure to economic news positively affects people's knowledge of this topic, especially for those citizens with few —negative—real-life economic experiences and those who have no alternative sources of information such as interpersonal communication (Kalogeropoulos, Albæk, De Vreese, & Van Dalen, 2015). An extensive base of empirical research shows how economic news is key to citizens' perceptions of the economy (e.g., Behr & Iyengar, 1985; Blood & Phillips, 1997; Damstra & Boukes, 2018; De Boef & Kellstedt, 2004; Doms & Morin, 2004; Goidel, Procopio, Terrell, & Wu, 2010; Hetherington, 1996; Soroka, 2014; Soroka et al., 2015; Van Dalen et al., 2016; Wu et al., 2002), while a small subset of studies report no or minimal effects (e.g., Haller & Norpoth, 1997; Hopkins, Kim, & Kim, 2017; Lischka, 2016; Wu, McCracken, & Saito, 2004).

The relevance of economic news has repeatedly been demonstrated by its impact on consumer confidence. As a measure that combines people's evaluations of their own financial situation with their assessments of the national economy, consumer confidence captures economic sentiment in a rather complete way. A landmark study in this domain is provided by Blood and Phillips (1995), who are among the first to systematically investigate this relationship while controlling for the impact of the real economy. They found that the number of recession headlines in the *New York Times* has a significant and negative effect on consumer confidence. In a follow-up study (Blood & Phillips, 1997), the same effect is found for general (negative) economic news in the same newspaper. Results are confirmed by Doms and Morin (2004) who take 30 newspapers into account and apply their model to data covering 25 years (1978–2003). Other studies find similar economic news effects, within and outside the US context (e.g., Alsem, Brakman, Hoogduin, & Kuper, 2008; Goidel & Langley, 1995; Hollanders & Vliegenthart, 2011; Wu et al., 2002).

Research in which good and bad economic news is distinguished demonstrates that the public responds asymmetrically to these messages. The negative effect of negative economic news is not accompanied by an equally strong positive effect of positive economic news. Similar to the sensitivity among journalists to bad economic conditions, the public is most responsive to negative economic information (e.g., Damstra & Boukes, 2018; Hester & Gibson, 2003; Soroka, 2006). Negative news leads to more pessimism, while positive news does not cause the same degree of

optimism among the public. However, negative news also leads to higher levels of internal economic efficacy, as Svensson, Albæk, Van Dalen, and De Vreese (2017b) show. Negativity may trigger people's motivation to understand and to use information to deal with possible threats.

In most measures, consumer confidence contains items asking people to judge the past and future state of their national economy. More specifically, it asks whether they think the economy has or will deteriorate(d) or improve(d). Specifying confidence on this time dimension yields additional, but also mixed insights into economic news effects. Damstra and Boukes (2018) find that economic news matters for people's future judgments but not for their evaluations over the economic past. By contrast, Soroka (2014) and Soroka et al. (2015) find media effects on people's prospective but also retrospective judgments.

3.2 | Media effects on the economy

The "media malady hypothesis" posits that economic news might also have an impact on the economy itself. This idea, famously coined in 1990 by *The Washington Post* ("Is the economy suffering from media malady?"), entails that by paying attention to the possibility of a recession, the media might actually help to create one. There is some empirical evidence supporting this hypothesis. Blood and Phillips (1997) report long-term effects that they describe as "uniformly and persistently" (but that were absent in their 1995 study). Wu et al. (2002) conclude that the amount of recession-related coverage in the *New York Times* influences real economic changes, at least in times when economic conditions are bad. Huxford (2012) finds that UK and US journalists, by writing about the possibility of a recession—even in times of economic growth—make the occurrence of an actual recession more likely. More recently, research on (policy) uncertainty in economic news indicates consequences for stock market volatility and trends in policy-sensitive areas (Baker, Bloom, & Davis, 2016).

Financial journalism, similarly, might affect stock market movements, which provides another illustration of the close interrelationship between financial journalists and financial professionals described above. Davis (2006) shows how elite actors in the financial markets rely on economic news to make their decisions. This is in line with aggregate level studies that examine the reflexive nature of stock markets, finding structural effects of (social) media coverage (e.g., Boudoukh, Feldman, Kogan, & Richardson, 2013; Casarin & Squazzoni, 2013; Groß-Klußmann & Hautsch, 2011; Kleinnijenhuis, Schultz, Oegema, & van Atteveld, 2013; Strauß, Vliegenthart, & Verhoeven, 2017).

3.3 | Explaining economic news effects

The agenda-setting literature provides the most dominant explanation for economic news effects; by emphasizing certain issues over others, the media are able to influence public opinion (McCombs & Shaw, 1972). The impact of mediated messages gets stronger when the obtrusiveness of an issue is lower (Iyengar, Peters, & Kinder, 1982; Tan & Weaver, 2007). First coined by Zucker (1978), obtrusiveness can be defined as the amount of personal experience someone has with an issue (Winter, 1981). When people have none or minimal first-hand experience, the agenda-setting effect is strongest. Applied to the issue of the economy, Blood and Phillips (1997, p. 101) write:

> *Economic issues that audiences experience directly and dramatically, such as unemployment or recession may leave less room for media effects (…). The general state of the nation's economic health may be a less obtrusive issue, leaving editors with the opportunity (…) to raise concern when the public does not anticipate or feel directly the effects of economic downturn.*

Haller and Norpoth (1997, p. 573) use a similar approach when explaining the *absence* of media effects. They consider the economy "a classic doorstep issue, capable of shaping public opinion through real-world experience," leaving less room for media effects.

In contrast to the idea of stronger news effects in situations of low issue obtrusiveness, some studies indicate that economic news effects are strongest in times of crisis, because detrimental economic conditions increase

people's willingness to update their economic expectations (e.g., Carroll, 2003; Doms & Morin, 2004). Under "normal" prosperous circumstances, economic expectations tend to be *sticky*: People have no incentive to regularly absorb economic information and their expectations, therefore, tend to remain rather stable over time. However, in times of crisis, people tend to update their information more frequently because (a) it is more likely to (accidently) come across economic news due to higher volumes; and (b) consumers are more willing to read or watch economic news items. In particular, dramatically negative headlines ("Recession possible!") might be deemed relevant by the public, because these suggest that the provided information is directly related to their own financial future (Doms & Morin, 2004; McCarthy & Dolfsma, 2014).

The hypothesis of stronger media effects in bad economic times is supported by several studies. Doms and Morin (2004) find that consumer sentiment is most susceptible to media effects when coverage is high, which is in times of economic distress. Similarly, Wu et al. (2002) conclude that media effects are strongest in times of downturn, suggesting that people pay greater attention to economic news when the issue is most relevant to them. Goidel and Langley (1995, p. 326) find most pronounced media effects when economic signals are mixed, and, subsequently, subject to a variety of interpretations (which was the case during the US 1992 Elections). In contrast, Damstra and Boukes (2018) do not find any differences in media effects for periods of economic growth versus decline.

Media dependency theory (MDT) provides another theoretical angle to understand the conditionality of media effects. Originally proposed by Ball-Rokeach and DeFleur (1976), MDT predicts that the impact of news is contingent upon the level of audience dependency on media information resources: The higher this dependency, the greater the likelihood that media information will influence citizens' cognitions, feelings, or behaviors. People might be more dependent upon mediatized information when they have less real-life clues or experiences to build their judgments on. Therefore, media effects are stronger for people's sociotropic evaluations (judgments of the national economy) compared to evaluations of their own economic situation (Boomgaarden, Van Spanje, Vliegenthart, & De Vreese, 2011). Kalogeropoulos (2017) shows that personal economic expectations are not influenced by economic news in general, but only by more dramatic (i.e., tabloid) stories dealing with unemployment specifically. Similarly, economic news is expected to have a bigger impact on people's expectations for the future than for their evaluations over the past (Damstra & Boukes, 2018).

Also, higher levels of uncertainty make people more dependent on mediated information. Uncertainty can be conceptualized as a subjective experience shaped by external circumstances, such as a crisis; however, uncertainty can also be part of mediated information itself. A recent study by Van Dalen et al. (2016) looks into the impact of uncertainty when this is explicitly mentioned in economic news articles, and finds a negative effect on consumer confidence, above and beyond the impact of tone. Svensson, Albæk, Van Dalen, and De Vreese (2017a) investigate the impact of ambiguous economic news and identify economic uncertainty as the mediator through which consumer confidence is affected.

3.4 | Reversed causality?

Adding to the complexity of the relational framework, some studies suggest the possibility of reversed causality: Public economic sentiments could potentially affect subsequent media coverage (e.g., Soroka et al., 2015; Stevenson, Gonzenbach, & David, 1991; Wu et al., 2002). As Soroka et al. (2015) suggest, news reporting is partly a consumer-driven process, which might come with the incentive to reflect public concerns. The idea that public economic pessimism causes more negative coverage is empirically confirmed by Soroka et al. (2015) as well as Wu et al. (2002), although the latter finds the effect only to hold during recessionary times.

3.5 | Where to go from here?

Studying economic news, its antecedents and its effects, is key to our understanding of journalistic routines and the formation of economic perceptions. To further develop our knowledge, several avenues for further research seem

promising. First of all, quantitative research studying the triangle of the economy, economic news, and economic perceptions needs to be integrated with research critically examining the construction of economic news. Some contradictory findings coexist that call for further examination: Whereas the former tradition points to a preoccupation with negativity among economic journalists, the latter identifies the absence of critical perspectives. One explanation for this apparent contradiction might be related to the tendency among journalists to focus on the short term (Fraser, 2009, p. 80). The negativity bias among journalists, in that sense, might only imply writing more about unemployment when it goes up compared to when it goes down. However, being critical in the short term, without reflecting upon and questioning the overarching system, eventually leads to economic news reporting in which negative trends receive only more superficial—and therefore uncritical—coverage.

Second, more individual-level research is needed. Especially when it comes to the conditionality of economic news effects, experimental research would help to understand which aspects of (negative) economic news provoke the strongest effects, which citizens are most susceptible to these effects, and through which mediating mechanisms these effects occur.

Finally, the overwhelming majority of studies rely on traditional conceptualizations of news media, with print media being the absolute favorite. There is only limited research into differences across traditional media outlets (Goidel et al., 2010). While these outlets are still highly relevant, recent research suggests that the content of online economic news or on (social) media might be systematically different (see, for example, Schifferes & Coulter, 2013; Soroka et al., 2017) and might have different effects as well. Further exploring this avenue is crucial to enhance our understanding of the social world around us that is shaped by real economic conditions, by economic coverage in an ever-changing media environment and by people's economic perceptions.

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WHAT ARE FINANCIAL JOURNALISTS FOR?

Damian Tambini

In order to understand why so little media attention was paid to risks in the banking sector in the run up to the financial crisis, we need to understand the framework of law, regulation, self-regulation and professional incentives that structure the practice of financial and business journalism. This paper focuses in particular on what role financial journalists play in the system of corporate governance, the ways in which law and regulation recognize that role, and the extent to which this role is accepted and understood by financial journalists themselves. The first part of the essay reviews recent debate on financial journalism and investigates the role of financial journalism from a systemic perspective: looking at its role in corporate governance, and its impact on market behaviour. I develop the notion that financial and business journalists operate within a framework of rights and duties which institutionalize a particular ethical approach to their role. The second half of the article, which draws more extensively on interviews conducted with journalists and editors, asks how journalists themselves understand and describe their role and what they see as the key challenges they face as they attempt to perform it. It emerges that there is no consensus among financial and business journalists about their "watchdog" role in relation to markets and corporate behaviour, and whilst the financial journalists interviewed tended to agree on the key challenges they face, they are uncertain how to respond to them.

KEYWORDS business; conflict of interest; ethics; financial; journalism; regulation

Introduction: Financial Journalism—The Debate

Criticism of financial and business journalists is not new. They have faced their share of public criticism both before and since the 2007 credit crisis. The charge sheet is a long one: financial journalists are criticized for superficiality and for a failure to conduct investigations (Davis, 2005; Doyle, 2006; Wilby, 2007) and for inappropriate news values (Doyle, 2006). They are criticized for being insufficiently sceptical (Doyle, 2006), and captured (Starkman, 2009). The following passage, from the *Columbia Journalism Review* (Brady, 2003), focuses on the role of CNBC during the first dotcom boom and bust in the United States:

> Critics claim that CNBC's on-screen personalities led the charge into the speculative stocks of the 1990s, stocks that eventually imploded. There are professional questions, as well, about the network's cheerleading coverage of Wall Streeters who were extolling stocks that those same analysts were privately calling "crap." The Merrill Lynch analyst Henry Blodget, for one example, had been a frequent guest on CNBC. His Internet stocks all came crashing down, and eventually it was learned that he'd been recommending stocks on-air that he privately called "junk" . . . Alan Abelson, the respected financial columnist of Barron's, comes down hard on the channel. "CNBC," he says bluntly, "was a product of the stockmarket mania. They contributed to it, and they ate off it". (Brady, 2003, p. 50)

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Whilst questions should be asked about the complex ethical conflicts and more subtle conflicts of interest behind this "bubble" journalism, most see financial journalism's weakness as cock up rather than conspiracy. Gillian Doyle (2006, p. 433) questions the level of training and skill among business journalists. Many of the financial journalists she interviewed said that as financial products become more complex it is difficult to find journalists with the expertise to adequately understand the material they are reporting on. Aeron Davis' research, based on interviews with fund managers, brokers, and other interested parties in 2002–2004, similarly reports perceptions of a lack of expertise and of critical reflection by journalists (Davis, 2007, pp. 163–4).

Gillian Doyle argues that a lack of skills among journalists as markets become more complex undermines journalists' ability to hold companies to account (Doyle, 2006, p. 442). According to a news editor interviewed by Doyle: "financial journalists are generally good at analysing companies and interpreting and maintaining companies at arms length. Where they are less good, however, is in pro-actively investigating stories—in stepping back to see the wider picture and spotting things that deserve a closer look. This is because they don't have the time and the opportunity and perhaps the education and training needed to be more pro-active" (Doyle, 2006, p. 442). Similarly, several financial journalists and editors interviewed for this article raised the issue of the lack of specialist training for financial analysis. "The people that are really skilled go and make loads of money working in the financial sector. Not writing about it", one respondent said.

The challenges faced by financial journalists were well illustrated during 2007–9 when only a very few individuals, notably Gillian Tett of the *Financial Times*, spotted the crisis coming. Financial journalism is accused of giving a partial view of the business world. But is it a distorted one? Do the financial media, as Peter Wilby (2007) asserts, "present the world through a middle aged, middle-class prism"? Wilby's charge is that in reporting financial issues, for example house prices, there is a tendency to frame issues as though what was "good news" was uncontroversial. As those who wish to buy, but not sell houses know very well, price hikes are not good news for everyone. For those journalists that aspire to "public interest" coverage, just what interest should they serve is a very complex issue: should they serve investors? Or the "rationality" of the market? Only exceptional individuals will actively want to be the one that burst the bubble.

Critics of the current state of UK financial and business journalism thus tend to focus on the problem of a skills and resources gap. And whilst the shifting relationship of power between political journalists and politicians is much discussed (see John Lloyd, 2004 and Nick Jones, 1999), the similar standoff that occurs between financial journalists and their sources has been subject to less discussion. One very real problem is that interested parties—including corporate executives and analysts—sometimes constitute the only repositories of relevant data and employ the main experts. With the help of proactive PR, information can be controlled despite the fact that—as we have found—ultimately the financial system is a public matter that affects us all. Dyck and Zingales describe the relationship between financial journalists and their sources in terms of a *quid pro quo* situation: access to information is granted; but only on condition that stories are presented in the required manner (2003, pp. 1–6). Sources exert their control through granting/ denying of access, the potential for treating, threat of lawsuits.

The charges levelled against current financial journalism: of capture and of superficiality, and of lack of skills, are of course based on the assumption that financial journalists should play an independent, "watchdog" role. Since this is not a consensus

view, even among journalists, it is worth making this explicit. Might the problem not be that markets are increasingly complex, or that journalists are insufficiently funded? Perhaps business and financial journalists themselves do not see themselves as engaged in "public interest" reporting in the same way that political journalists do.

The interviews conducted for this project, perhaps surprisingly, showed a considerable lack of consensus about whether, and to what extent, business and financial journalists should seek to serve a wider public interest. One way of examining this question theoretically is to ask what it is that our corporate governance structure asks of financial journalism. Obviously there are no formal, legal responsibilities placed on journalists; but after high-profile failures such as Enron and Northern Rock, we might ask how financial journalism fits in to a general framework of checks and balances on business.

Financial Journalism and Corporate Governance

Joe, Louis and Robinson report a 2002 survey finding that US board members "rank negative press as the greatest threat to corporate reputation, ahead of corporate unethical behaviour and litigation" (Joe et al., 2007, p. 4). Journalists thus have a potentially powerful position if they choose to hold companies to account. But whilst political journalists have a strong professional commitment to exposing wrongdoing and corruption, our interviewees reported that the notion of a watchdog role is less pronounced among business journalists, particularly where journalists see their main role as supplying investors with market relevant information.

Understanding the role of financial journalism in a broader system of corporate governance means understanding how financial journalism is involved in holding corporations to account, and informing the public about the risks of the financial system. Regulators, of course, hold businesses—including banks—to account, but they are the first to admit that they cannot regulate every aspect of corporate behaviour. They rely also on the public and the media working to expose wrongdoing and expose matters of public interest.

Michael Borden (2007) has analysed the role of financial journalists from the perspective of the overall system of corporate governance. His research focuses on the United States but there seems to be no reason to expect the United Kingdom to differ. From this perspective, it has been argued (Klausner, 2005, cited in Borden, 2007) that corporate law has inherent limitations and that in order to understand failures of regulatory systems, attention must turn to extralegal enforcement mechanisms. Borden's approach is to identify what he describes as "gaps" in corporate law, arguing that the key issues of disclosure and investigation rely on the media. He sees the role of the media as: "Uncovering and deterring fraud, and acting as an informational intermediary that catalyzes and informs legal action by Congress, the Securities and Exchange Commission (SEC), the courts, shareholders, or private litigants" (Borden, 2007, p. 315). As Borden points out, journalists encounter conflicts of interest and challenges in relation to each of these roles. I return to this issue below.

This functional, systemic view of the role of financial journalists may well be rejected by journalists who invoke a narrow or market-based notion of their responsibilities. Several of the journalists interviewed for this research simply rejected the notion that they had such "ethical" or "social" responsibilities. These ethical minimalists saw their ultimate

responsibility as being to respect the law and serve the shareholders of their companies, not to plug gaps in the system of corporate oversight.

I will return to this disconnect between a systemic view of business journalism, and the reality of professional practice below. In the following section I shift perspective, looking at the direct and powerful impacts that financial news can have on market behaviour and the implications of this for the regulation, role and responsibilities of financial journalists.

The Effects of Financial Coverage: Reflexivity and Market Impact

> Keynes compared financial markets to a beauty contest where the contestants' behaviour is based not only on their own beliefs but also on their expectations of the other contestants beliefs . . . accordingly . . . the media is likely to play a disproportionate role in asset pricing. (Joe et al., 2009, p. 2)

One reason that a peculiar ethics and regulatory framework applies to financial journalism is that business news can have a very direct and powerful impact on market behaviour—with the "city slickers" case the most pungent recent reminder. On one hand, the fact that journalists may be in a position to abuse their influence has led to detailed regulation, some of which will be examined in detail in the next section. On the other hand, there is a more diffuse and less researched notion that journalists should avoid "panicking" markets, or contributing to irrational behaviour, a notion much debated after the Northern Rock debacle.

Measurement of the impact of news on stock prices is a well-established field of research which involves a number of distinct approaches. The research originates mainly in discussions about what makes markets move—rather than discussions about what impact changing media technologies might have. And there are specific literatures on policy issues such as central bank transparency (Connolly and Kohler, 2004; Reeves and Sawicki, 2007). Some researchers treat events (announcements for example, release of information) as "news", whilst others attempt to separate out the fact of coverage in news media as the key variable, asking whether the fact of coverage has an independent and measurable effect (Dyck and Zingales, 2003, p. 2).

There is, however, a danger of media centrism: of prioritising the impact of media coverage beyond the range of other factors on market outcomes (see Dyck and Zingales, 2003). Barber and Odean (2006) find that individual investors tend to be net buyers of shares on "high attention days". The important finding in this US-based research is that the tendency on such days is for institutional investors to be net sellers of those stocks whereas individual investors buy. The authors hypothesize that this is due to the limited information available to investors and "bounded rationality". Other research into the relationship between reporting and market behaviour examined the market impact of a survey of the "Worst Boards" published in *Business Week* in the United States. Interestingly, the results showed positive short-term share price gains even among companies identified as the worst boards. The short-term gains did subsequently reverse, however (Joe et al., 2009, p. 19). Other authors concern themselves with the problem of what influences investment decisions and the extent to which news reporting might be a factor.

It is useful to keep in mind these two systemic views of the role of financial journalists: first in terms of their role in corporate governance and secondly in terms of their role in relation to markets and particularly capital markets when considering the

responsibilities of financial journalists. On one hand, they indicate a wider watchdog role for journalists in the system of corporate governance; and on the other, they show that the reflexive nature of the relationship with markets requires a particular ethical approach.

In the following sections I describe financial journalism as a combination of various hard won rights and privileges that are granted in recognition of the social role that financial and business journalists are seen to play. This approach draws on Osiel's (1986) study of the professionalization of journalism in its understanding of the relationship between law, self-regulation and professional practices (see also Hallin and Mancini, 2004). Whilst journalists themselves, particularly in the United Kingdom often reject the notion that they have institutionalized professional responsibilities, I argue that such a position is untenable as it is possible to demonstrate that the legal and self-regulatory framework within which journalists work sets out and reinforces such responsibilities. In order to understand current challenges in the profession, it is useful to consider the longer-term context: business and financial journalism has evolved a clear set of professional rights and responsibilities which reflect (1) the role of financial journalism in the broader system of corporate governance; (2) the reflexive relationship between news and markets; and (3) the codification of the resulting set of roles and responsibilities in law and self-regulatory codes.

Financial Journalism, Regulation and the Law: Formal Duties of Journalists

In this section I will look at duties that are much clearer and less disputed than the broader "ethical" responsibilities discussed above. My concern is with the legal obligations of business and financial journalists. In the following section I outline the legal privileges that apply to financial journalists. Here is an incomplete list of the main duties of financial journalists relating to market abuse.

1. Insider Trading

Trading on the basis of information that is not in the public domain. Notoriously hard to define, this impacts on journalists when they may be party to private information prior to publication, and may at that point take part in trades that would be illegal. Under the Financial Services and Markets Act, Market Abuse can involve

> behaviour [that] is based on information which is not generally available to those using the market but which, if available to a regular user of the market, would or would be likely to be regarded by him as relevant when deciding the terms on which transactions in investments of the kind in question should be effected. (s118.2.a)

2. Market Manipulation

One variant of this, known as "share ramping", was at the heart of the *Daily Mirror* "City Slickers" case. Because of the strong influence that certain media can have on prices, it is possible for certain players to impact prices through recommendation and thereby profit by selling shares on in the short term. Readers who invest do so in inappropriately inflated stock and are likely to lose money when prices correct.

3. Conflicts of Interest

All journalism has to face issues of conflict of interest, but such issues are particularly pronounced in relation to financial journalism. The interest of the reader, investor or market may be in conflict with the private interest of the journalist if, for example, the journalist or an associate has a shareholding or some other stake in a company they are reporting. The temptation may be to withhold information that could hurt the company in question or publish information that favours it, or engage in profit-driven market manipulation.

4. Non-disclosure

Where journalists do have an interest, they are obliged under relevant codes (such as the Market Abuse Directive) to disclose the identity of the producers of the recommendation, and any interests that the producer might have in the recommended investment. Most established financial news providers operate in addition a policy of *internal disclosure* whereby any stocks held are disclosed to a key manager or editor who can monitor whether the journalist is as a result placed in conflict of interest as regards stories that are covered by that journalist.

For each of these four key ethical challenges there are layers of overlapping regulation and self-regulation including:

- The Financial Services and Markets Act 2000.
- Industry codes such as the PCC Code and Guidance on Financial Journalism.
- The Investment Recommendation (Media) Regulations 2005 (Statutory Instrument 2005 No. 382).

There are, of course, many other ethical issues. Some of these (such as accuracy, honesty) are covered by general journalism ethics codes, and some are contained within specialist codes such as the Press Complaints Commissions' (PCC) 2005 *Best Practice Note on Financial Journalism*. In addition, most established leaders in financial news have their own guidance and codes of conduct. These do cover issues relating to conflicts of interest, and independence of journalists, but also deal with other issues such as whether stock tipping is encouraged and working for other organizations.

Privileges of Financial Journalists

The law applied to journalists is in many respects the same as that applied to anyone else. But in some respects the regime for journalists is different. On one hand, the courts rely on the self-regulatory bodies such as the PCC to implement the rules, and this raises questions about the level of oversight and enforcement, particularly in the light of the extremely low level of PCC activity in this area, and the fact that it is almost always complaints-driven.[1] In the light of the exemptions for journalists by the Market Abuse Directive and the lack of PCC activity in this area, ethical responsibilities lie with journalists and their employers. Journalists were placed outside of the scope of some key aspects of the EC Market Abuse Directive—in recognition of the role they play in corporate governance—and the fact that they operate their own codes of conduct. And on the other

hand, journalists do have some informal immunity (for example in terms of their ability to protect their sources) in the light of the role they play in corporate governance.

Journalists are therefore treated as a special case, and in the United Kingdom they enjoy a system of formal and informal regulatory and legal privileges. On one hand, because of the particular role that news reporting plays, journalism is recognized in European Convention on Human Rights jurisprudence as worthy of special protection (Castendyck et al., 2008, p. 46). Whether the fact that courts tend to afford a lower level of protection to commercial speech than political speech may be relevant to the framework for financial journalism: it may be that journalists who are obviously fulfilling a public interest role are more protected by free speech rights. Where issues of free speech are likely to arise, in the United Kingdom as in the United States, is in relation to source protection (Osiel, 1986). UK financial regulators have developed informal and formal procedures that go beyond the protection afforded by the European Court in terms, for example, of the protection of sources. This means that whilst non-journalists (and we might include bloggers in this category—though this is less clear) could be obliged to reveal sources to a regulator, professional journalists under the PCC or Ofcom regimes are much less likely to be. Research on the historical emergence of these privileges and duties is beyond the scope of this essay, but it is useful to note two cases which illustrate the slow formalization of one journalistic privilege: the right to protect sources.

Following a 2006 dispute with the *Wall Street Journal* over a case relating to Overstock.com, the US regulator formalized its approach to working with journalists. Policy Document SEC 34-53638 sets out a set of rules and procedures that the SEC should follow before they subpoena a journalist to force her to reveal her sources. SEC officials should: try to obtain information first from alternative sources, determine if the information really is essential to the case, and should contact the journalist's legal counsel in the first instance rather than the journalist directly, in order to ascertain how important the information is, and the extent to which other sources have been exhausted. In announcing this new doctrine the SEC director was quick to point out that the SEC strongly supported freedom of the press. Cox argued that his agency "relies on aggressive investigative journalism to uncover wrongdoing in companies. Therefore, the SEC should do nothing to chill that work." Cox said "Financial journalists need to understand that the SEC considers them vital partners in our mission" (*Orange County Register*, 6 March 2006).

In the United Kingdom, the equivalent moment in which a line in the regulatory sand was drawn was in relation to the Interbrew case, in which the *Guardian* newspaper found itself in contempt of court after refusing to hand over documents relating to a leaked story about a merger involving a large drinks company. In this case too, the regulator (UK regulator, the Financial Services Authority) established a doctrine relating to protection of sources, but, in the case of the United Kingdom, this remains informal and unwritten.

Both regulators, in establishing these doctrines, recognized the public interest functions that journalists can play, such as holding companies to account and investigating illegal behaviour. Insofar as they do provide these benefits they should be helped by regulators rather than hindered, for example, by scaring off potential sources; hence journalists are granted privileges of source protection.[2]

Protection of sources is only one aspect of the privileges that are extended to financial journalists in recognition—and this is the crucial point—of their role in corporate governance and the wider public interest. The majority of privileges that financial journalists enjoy are in fact those enjoyed by all journalists, and include the notion of

qualified privilege as reflected in the "Reynolds defence" in defamation cases. In a defamation case brought by the Prime Minister of Ireland against the *Sunday Times*, it was established that journalists should be permitted protection of speech if they worked ethically: if journalists work without malice, on a matter of public interest and were not reckless. Lord Nicholls set out a 10-point test of responsible journalism, adding that:

> The press discharges vital functions as a bloodhound a well as a watchdog. The court should be slow to conclude that a publication was not in the public interest and, therefore, the public had no right to know especially when the information is in the field of political discussion. Any lingering doubts should be resolved in favour of publication. (Reynolds vs Times Newspapers Ltd [1993] 3 ALL ER 961).

Whilst judges do tend to err on the side of free speech, the key implication here is whether financial journalists that reject both bloodhound and watchdog roles should enjoy privilege, and whether bloggers and others might also benefit.

So whilst interviews for this project uncovered a somewhat patchy notion among journalists of any social or ethical responsibility to act as a watchdog, it is in recognition of this role that journalistic privileges have been granted. Whether, and how rights and duties might be conditional on one another, for example, is a question that is too broad to be addressed in this short article. The interviews conducted for the project tried to elucidate exactly how journalists viewed their role, and the challenges they faced in the attempt to fulfil it. It is to this material that we now turn.

Key Challenges for Financial Journalism

Between September 2007 and July 2008 researchers conducted more than 30 in-depth interviews with leading business and financial journalists, their editors and their lawyers.[3] The research focused primarily on the United Kingdom, with some US material included for comparison. The aim was to investigate the ethical and professional concerns of financial and business journalists, and the views of professionals on the key challenges facing the profession. The following sections of this paper report on the journalists' views of these key challenges.

Some of the challenges facing financial journalism are not new. The need for enhanced training and skills for financial journalists, and the unremitting daily struggle to treat stories with appropriate scepticism are the enduring themes of the trade, dating back to the emergence of financial journalism in the mid-twentieth century. But according to those interviewed for this report, new communications technology adds to these pressures and poses new challenges.

Speed

Pressure for increased productivity has prompted journalists to write more stories in less time than before. Some things have got easier, such as the availability of data online and accessibility of sources, but, on the other hand, the expectation is that material will be published as soon as possible, regardless of print deadlines or broadcast bulletins. Most journalists agree that this leads to intense professional pressures: both in terms of the degree of senior editorial oversight before publication and in terms of the extent to which additional sources can be accessed and verification standards maintained. Many

respondents claimed that journalists were forced as a result to rely on a narrower range of established news sources such as PR companies.

According to the editor of a Web-based business news service:

> Our readers want information at 6.00, 7.00 or 8.00 in the morning . . . On the newspaper the moment when a piece of news has been delivered to, say, the news editor, it'll go through the whole process of . . . news editing, sub editing, copy proof, whatever, go through that process and sending to the print site, put it on the page. That'll take two, three hours, OK [on our site], because we're a very small team using quick, light, web-based technology, the production process takes about two or three minutes. So, it's fast, ultra-fast. That again changes the way you write.

The processes through which facts are verified, judgements of news value reached, and reports are selected for publication are likely to have significant consequences for individual companies, investors, employees and potentially for the broader economy. There is a trade-off between speed and attention to ethics and it is one where financial journalism has yet to find a new equilibrium of accepted practices. Getting the balance wrong could lead to Financial Journalism as a profession becoming irrelevant. According to a leading Fund Manager:

> There is this . . . vicious downward circle: you have fewer journalists paid less with less time and they don't have the luxury of spending the time you need to come up with information that is required. So it becomes less useful to people like me. We ignore it increasingly and it becomes sort of marginalized.

These pressures of time are not peculiar to business journalists, but are of course widely noted tendencies of contemporary journalism. Coupled with some of the other trends reported by interviewees, however, the increased pressures on journalists' time may be undermining the ability of business and financial journalists to fulfil an effective public interest function.

Complexity

Financial stories are more complex and specialist than ever before. In the hand wringing following the collapse of Enron, some journalists admitted that the degree of complexity in the structure of Enron's business baffled them. Those covering the credit crunch and the Northern Rock stories also required specialist knowledge if they were to form an independent view. The lack of skills of this type among journalists adds to the reliance on intermediaries and news professionals to "interpret" and explain stories for journalists.

According to BBC Business Editor Robert Peston, the financial media could have done more to foresee some of the problems resulting from the credit crunch and complexity is part of the problem:

> The financial press has typically focused too much on equity markets and not enough on debt markets . . . For many months, I was very concerned about the explosive growth of CDOs [Collateralized Debt Obligations] and I tried to explain them through my reporting. Doing so was a challenge, when even bankers creating the CDOs were unable to describe them in terms that make sense to non-specialists.[4]

Whilst non-journalist stakeholders interviewed all agreed that complexity was a problem, there was some dissent from this view in the interviews conducted with journalists. Perhaps because of professional pride, they tended to point to some of the strengths and successes of the profession. Others were more ready to argue that the complexity of business and financial markets is putting a strain on reporting.

Strategy

Increasing pressures of speed, complexity and productivity add to the constant challenge for journalists: namely to ensure that they are not used in the service of someone else's interests, but report in the public interest or at least the interests of their readers. Business and financial PR has become much more important in the field in recent years.

Professional strategy advice, in the form of financial PR, has become a high-margin, rapid-growth industry in recent decades. In 1986, British companies spent £37 million on financial PR. A decade later the annual figure had risen to £250 million (Michie, 1998, p. 26). The evidence is that the past decade has seen similar or perhaps larger rates of growth. Industry sources estimate that financial PR consultancies can command fees up to 1 per cent of the bid values in merger and acquisition deals (Miller and Dinan, 2000).

The current credit crisis is considered to be the greatest challenge of the industry and the professionals predict that the merger business will pick up only at the end of the decade. Even so, the financial PR industry as a whole managed a revenue increase in 2007. On *PR Week*'s top 150 UK PR consultancies league, listed companies' fee income saw an average 22 per cent increase (*PR Week, 2008*). The industry is dominated by a few agencies. Brunswick tops the league in Mergermarket's 2006 table of pan-European PR advisers after advising on 146 deals worth £177.8 billion (Mergermarket, 2007). Brunswick, the largest financial PR company in the United Kingdom had almost a third of FTSE 100 companies on its books. Finsbury, Financial Dynamics, Citigate and Maitland hold the spots from the second to the fifth, all advising on deals worth over £100 billion.

One editor with a long experience in the United Kingdom saw the rise of financial PR as the single most important change to have taken place in recent years:

> In the last ten, twenty years I suppose the biggest change has been the rise of the financial intermediary, financial public relations services. They are putting up barriers to information. I think they were always around but they've developed and become much more sophisticated. When I first came across them they were really kind of press cutting services. But now they are really strategy advisors. And there are some company directors that do not talk or answer phone calls without consulting them. And they have enormous power. In many ways, they set the agenda. They are the access point. They are making these people available for interviews or they don't make them available for interviews. They release information in a, what's the word, in a way which is carefully orchestrated to happen . . . Things are very controlled in a way compared with the way it used to be . . . the free flow of information has been interrupted and the kind of information we get can be very sanitized. It's very hard getting to the bottom of a story.

One former financial PR professional claimed that there was increasing co-dependency between PR and journalists, as journalists are under time pressure to get stories, and PR now controls access to the larger companies that control most of the larger

stories: "the papers couldn't exist without financial PRs pushing stories to them everyday because they just don't have many stories".

Journalists are, of course, aware of such strategies. The business editor of a national newspaper admitted: "I love the leaks. Some of the leaks are obviously done to protect insider shares or to manipulate the share price. There is no question in my mind about that. But it is much more difficult to do today than 10 years ago". There is a clash here between different aspects of professional and ethical responsibility on the part of the journalist. The journalist must get the story, and the leak is great news from that point of view. Presumably, if the story is big enough, who cares that the journalist is being put to instrumental use. In that context, the journalist may reason, perhaps the fewer questions asked about why the leak has been made, the better.

The more seasoned journalists reveal a distaste for dealing with PR when pressed on the matter.

> Because if PR give it to you it means they want something. I don't particularly like it. If people give me stories I will be happy but I will stand them up. I try not to be used or manipulated. I don't want to be used. A lot of PR companies try to trade with journalists so it is always very subtle. They say "we will give you this now" then they might want something nice written about their clients. It does happen. But I don't like it.

According to one former editor of a national newspaper: "some financial PRs simply tell whoppers . . . Friendship is a potential corruptor so PR must be kept at arms' length". London financial news is particularly susceptible to capture by PR according to one financial journalist who had worked in several countries "people are spoon-fed here in London. The financial PR industry is very developed. In Hong Kong journalists have direct access to people operating in the market", "PR can be a big problem for journalists. They [PR] selectively release information and then can block any further access. They can deny access to company briefings, AGMs and profit warning briefings".

This would seem to support Gillian Doyle's description of business news production according to which "corporations vie with each other for the attention of a target audience mostly composed of investors. In so doing, they dominate or 'capture' business and financial news agendas to the exclusion of all other interests" (Doyle, 2006, p. 435; see also Davis, 2005).

Whilst problems of spin and bias do create challenges for journalists; one very real problem is that interested parties—including corporate executives and analysts—do sometimes constitute the main repositories of data and the main experts. Dyck and Zingales describe the relationship between financial journalists and their sources in terms of a *quid pro quo* situation, and one analogous to recent critical views of political journalism: access to information is granted; but only on condition that stories are presented in the required manner (Dyck and Zingales, 2003, pp. 1–6).

The combination of increasing complexity and increasing impact of communications professionals is a powerful double whammy for financial journalists. According to a leading business editor:

> Editor: Well, I think, you know, there is a risk that any journalist can swallow lines from the . . . public relations people and so on but you need to be sceptical. But you know it's about picking all the information hopefully from the source, and not to take it all so seriously.
>
> Interviewer: With all the complexity you talked about, has it become more difficult to do that?

> Editor: It is more difficult. Yeah. But, you know, there is a lot of going on which you don't understand and which we can't get at because of that complexity. That does make it a bit harder. But you know, what we are reporting on most of the time is takeovers, and companies' results, regular trading statements, and so on. We are all writing about the same statement. You need to ask all the right questions.

Sustainability: Business Models for Financial and Business News

Many interviewees harked back to a golden age of financial journalism in which a few players (the *Financial Times* in London; the *Wall Street Journal* in New York) enjoyed a privileged monopoly provision as specialist business news providers. Supported by "tombstone" announcement advertising by large corporate clients and steady sales, with little serious competition, times were easy. In the protected environment the professional ethics and responsibility of the profession were fostered and there was the financial stability to fund more investigations and longer-term risks.

The contemporary scene is quite different according to those interviewed. Competition from new entrants, some driven by new technology, and specialist subscription news and information terminals such as those provided by Bloomberg and Reuters, have long ago upset the comfortable monopoly of the business press. Increasingly, previously bundled services providing data, information, news, analysis and comment are unbundled. Much of the value derived in financial and business news, particularly in the press, is now in analysis and comment rather than data, information and news, as updates are provided around the clock and, increasingly, as a free service online. Many of the journalists interviewed stressed that there is still considerable doubt about the sustainability of new business models for financial journalism in the new competitive environment. Intensified competition leads to questions about what in fact the market will provide. Whilst demand for quality business news remains high and business news readers' demographics are valuable to advertisers, some aspects of business journalism may suffer. In particular, expensive and risky ventures such as investigations are seen as increasingly difficult to fund:

> The huge investment of energy and uncertain outcome associated with investigative reporting means that, for most financial media in the UK at least, this is supported only on an occasional basis rather than as a routine activity. So long as this remains the case, the opportunities for media to play a role in uncovering frauds such as Enron will be limited. (Doyle, 2005, p. 443)

A senior editor of a national UK financial news outlet agreed that:

> Putting two or three people onto a project for a month where at the end of it you might get nothing in terms of material is something that we would think very hard about doing, because it is expensive . . . We used to have a small investigative unit, we don't really anymore.

A lack of resources would seem likely to impact on quality and, in particular, accuracy. Standards of verification and sourcing vary outlet by outlet. Very few outlets will commit to the industry gold standard of two named sources for each story—for the simple reasons that sometimes one person in the right position is enough to verify a story, particularly if it involves that person—and time is scarce. It appeared that journalists are aware of the market impact of their reporting—both its impact on individual companies and on market

sentiment more broadly. When journalists were questioned about whether this would affect their verification of a story there was a mixed response. Some indicated that they might be less inclined to publish a story at all until they were very sure of its veracity if they thought it may have an immediate impact on job losses, for instance. Others admitted that they might be inclined to adopt higher verification standards if the story was likely to have an immediate market impact.

Regulation and Information

Defamation law was singled out as a key problem by several of those interviewed, as was the problem of the lack of publicly available information. Reform of the United Kingdom's plaintiff-friendly defamation law is a demand made by all journalists, not just business journalists. But many argue that business journalism faces particular challenges, in part, because of the imbalance of resources between struggling media companies and large companies with larger budgets for legal fees.

The law impacts not only in relation to structuring the profile of liability risk for publishers. It also structures the access to the basic materials that journalists transform into news. According to one interviewee, "one of the key challenges for financial journalists is access to information". In the view of these journalists "what is publicly available information in the UK that journalists can get hold of does not compare well to the US or any other country. That surely has a role to play in relation to financial journalism". Whilst freedom of information law has had an impact on access to data held by public authorities, journalists need better access also to that held by private bodies.

Professional Closure: Who is the Financial Journalist?

To claim that the status of the business journalist comes with rights and responsibilities begs the question "who is a financial journalist"? Whilst in the past it was relatively clear who was a financial/business journalist since they worked for the established news media, the rise of bloggers, social media, new kinds of newsletters and other news services, undermines the informal professional definitions. There has always been pseudo-journalism in the form of tip sheets, rumour reports, and newsletters, and many bloggers do aspire to being financial journalists, describing themselves as such, but existing outside the ethical and professional—and to an extent, legal—constraints of the profession. The results of the interviews suggest that financial and business journalism is more than a job, or an activity. Like other specialist beats it is a set of rules of thumb, formal rules and an ethical attitude, albeit one that varies in some respects between outlets and a great deal between countries.

Online financial news should be separated between online versions and initiatives of old media—which tend to observe the same codes and standards; and pure play online financial news and information. This latter group appears to exist outside the existing framework.

Where broadcasting and newspapers once were the crucial media in terms of their market impact, new media now play a significant part. One editor recounts the case of a report on a rumour on his purely online news messaging service:

> Editor: There are rumours of private equity interest in a company called X. Now if it was true that the private equity group was going to buy X it would be on the front page of

> the newspaper because it would be confirmed, checked news. It would be a big story. But at the moment it is just among the market chatter. So, traditionally, this sort of information would be within the market reports ... Because we are working online in this instant messaging format, we print the same material but it HAS instant effects. Normally, the story which comes to the newspaper is printed in the middle of the night, turned over by the news wires. By the morning, people can take a view, a quite leisurely view on whether it's true or not true. Or the story might have moved on in some way. When you print it live in IM conversation, nobody has any time to check. And so the story can have a sort of exaggerated effect in terms of moving the prices. That brings with it huge responsibilities. Because if the story is wrong you can be moving prices falsely. If you say something is true which is not true ... And it means you have to be 100 per cent squeaky clean. Because people automatically believe you can be guilty of manipulating the stock market. So you have to be completely open. You have to write your doubts of the story ... You have to be make it very clear to the reader what sorts of information you are talking about, how firm the information is and literally you have to tell the reader everything you know. If there's any sense you're holding back the information you immediately look like you are manipulating the market in some way. You might not actually doing anything bad but the perception would still be there. That means we could never be seen to have any investment of our own.
> Interviewer: So you have to be very clean.
> Editor: One hundred per cent, squeaky clean.
> Interviewer: That means you don't own any stocks.
> Editor: No. I only have debts.

The site being discussed is in fact subject to the PCC code as it is operated by a national newspaper. Others are not, and as the interviewee acknowledges, this could lead to pushing the regulatory and ethical boundaries. "We abide by all the values which go with this newspaper ... Yet at some point, somebody ... if [the site] sat under someone else's umbrella, we could be abused because the technology allows you to speak to a lot of people". The implicit assumption here is that the (self)-regulatory framework that professional print and broadcast journalists are subject to is an effective foil against abuse of journalistic power, for example through market abuse. There is a need for more clarity about who is operating within the professional and ethical framework of financial journalism, particularly with regard to Internet content.

Conclusions

Financial and business journalists, like other journalists, sometimes deny that they are part of an organized "profession". But this paper has sought to show that whilst financial journalists are reluctant to accept it, they do have a clear institutional role in the broader financial system. A simple way to understand this role is to see it as a framework of rights and duties that have been developed in the context of legal and regulatory disputes and which form the institutional framework which governs and shapes professional practice. In return for the social function they perform, financial journalists are granted professional privileges.

Interviews conducted for this research support the view that many financial and business journalists lack awareness about the professional and institutional framework within which they operate. They hold a range of opinions about their ethical responsibilities

and broader governance role. Interviewees' responses also show that financial journalism is under intense pressure because of the challenges of increased complexity of financial and business news, together with industry changes that put pressure on the funding of investigations and the time available to professionals in fulfilling their duties. The powerful role that strategic PR has come to play in the financial and business journalism sector constitutes another key challenge. And in addition the profession faces two key strategic questions. One is how to respond to the question of professional closure as bloggers and other new media services compete with established financial news sources. Another is the question of what role financial news journalism seeks in the broader settlement for corporate governance. As the regulatory response to the financial crisis of 2007–9 is designed, debate on the appropriate balance between legal and extralegal enforcement will entail a debate about the role of public—and therefore journalistic—oversight. The privileges extended to financial journalists, and the duties that are expected in return, should be part of that debate.

This could be an opportunity to revisit a broader debate about what role journalists should play in the overall framework of corporate governance: not only unearthing cases of fraud, but providing the balanced and sceptical news and comment that deflates bubbles and helps avoid market irrationality. In the current environment, pressures of time and resources are in danger of undermining business journalism in general, and the ability of financial journalists to find a way through the current impasse. The long-standing pressures on business journalism, such as sustainability, source dependency and pressure from PR, are exacerbated by the economic pressures that undermine risk taking, together with the increased complexity of financial markets and the pressure for rapid publication. The response to this impasse was beyond the scope of the interviews conducted for this phase of the research, but we might speculate about possible ways forward. Journalists could respond by seeking regulatory support to enable them to fulfil their role, for example by reducing defamation risk. Radical solutions are being discussed about new ways of funding journalism, and these will inevitably entail judgements about what constitutes good journalism, and whether business journalism qualifies. Given the range of the challenges they face, journalists will need to work together and pool resources if they are to strike a new compact about their rights and duties in the new environment, and to whom these rights and duties should be extended.

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NOTES

1. Interviews were carried out with the PCC director and data on official complaints reveals a lack of complaints against this article of the code. In the first 10 months of 2007, there were two complaints: one did not breach the Code and the other was dropped by the complainant. In 2006 there were three, of which two did not breach the Code and one

was dropped. In 2005 there were four, two of which were not pursued by the complainant while two accepted some offer of action by the editor (information supplied by the PCC).

2. I am grateful for information provided by former *Wall Street Journal* general counsel Stuart Karle and Howard Davies, Director LSE and former Director, Financial Services Authority.

3. Methodological note: semi-structured interviews were conducted mainly by the author, and some were conducted by researchers working with him according to a semi-structured interview guide focusing on the role of the business journalist and challenges faced in performing that role. They lasted between 30 and 65 minutes and were recorded and transcribed. Transcripts were analysed for the main themes they focused on, and the key challenges identified form the structure of the following report. Interviewees consisted of the most senior financial and business journalists in the United Kingdom, some of whom requested anonymity which has been granted to all interviewees for consistency. The list of interviewees is available from the author. (Additional comparative material has been provided as background from interviews conducted with financial journalists in New York and Hong Kong which will be published separately.)

4. Robert Peston quotes are from an interview conducted by Terence Kiff for an MSc dissertation, Department of Media and Communications, London School of Economics, July/August 2008. I am grateful to Terence for supplying the transcript.

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THE NEW BREED OF BUSINESS JOURNALISM FOR NICHE GLOBAL NEWS
The case of Bloomberg News

David Machin and **Sarah Niblock**

News providers such as Bloomberg's multiplatform service and innumerable business-to-business magazines are flourishing despite the hugely challenging economic climate for journalism. They are catering for a new type of global audience that demands a different editorial strategy. Rather than writing news for local markets they produce for a global professional readership. This paper interrogates the nature of this global news style through linguistic analysis, supported by interviews with journalists. The paper raises questions about the continued efficacy of "traditional" models of journalism practice and notions of audience.

KEYWORDS editing; globalisation; news agency; news writing; reflexive

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Introduction

While many observers are now in agreement that traditional forms of news and journalism are in downturn due to a combination of factors—advertising, market pressures, deregulation, new technologies and changing audience culture—there are exceptions as in the case of the global finance and business news agency Bloomberg. Bloomberg appears to be particularly attuned to these new pressures and is producing a growing quantity of general news that is specifically targeted at a global business community. Bloomberg's subscriber-based model for financing its business service has secured enough revenue to enable the company to expand its general news operation. It is now providing tailor-made news for a growing range of mainstream outlets, filling some of the gaps in content created by the downturn in revenue. This paper's main focus is on Bloomberg's general news-writing approach, not its business and finance service. We compare Bloomberg general news stories with content from mainstream outlets, including Thomson-Reuters and the British *Guardian*, and we identify a marked difference. In the stories we analysed, we found Bloomberg's approach to be much clearer, fact-based, multi-sourced and without "local" subjective inflections. We interviewed Bloomberg staff and studied a recent copy of their style guide, and found that their new writing approach is carefully orchestrated to appeal to a global readership. Although we question the implications of news produced for a business audience. The emergence of news agencies was intertwined with the market. Therefore we wished to delve deeper into Bloomberg News to see whether applying its global business news style to general news is as positive as it seems.

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Methodology

In December 2009, Bloomberg's chairman Peter Grauer told ft.com of the company's mission to be the world's most "influential source of news".[1] We have chosen to analyse Bloomberg specifically because of its relatively rapid rise to prominence and its detailed attention to news style. We examine Bloomberg's public website, as opposed to its subscriber-only service, for reasons of feasibility and to allow us to examine breaking news in real-time. For our textual analysis, we chose a major breaking news story of global interest—the death of musical artist Michael Jackson—to compare how different local and global news providers culturally locate the story to cater for their different target audiences. We felt this story best illustrated the extent to which mainstream UK, US and global news "brands" apply a degree of value judgement and interpretation to news stories whereas Bloomberg runs them very straight and does not assume prior knowledge or opinion on the part of their readers, who could live anywhere in the globe. As the Jackson story was US-based, we were interested to see whether this US-based company appeared to be catering for a largely US business community. We also compared coverage of another global story, the predicted swine flu H1N1 pandemic, and found similar patterns emerging. Finally, we look briefly at two other texts in order to show the way that business imperatives can influence the way that stories are prioritised and which elements are emphasised.

To carry out our textual analysis we draw on Halliday's (1985) outline of clause relations, basic lexical analysis (Fairclough, 2000) and appraisal theory (Martin and White, 2005). The first assesses the degree of complexity in writing style, specifically the linkage and ordering information with ideas. The second draws attention to applied generic discourses such as information or entertainment. The third indicates levels of journalistic interpretation in texts.

Examining the products of news providers simultaneously demands an exploration of the processes and practices that make that news (Machin and Niblock, 2006). Textual analysis alone is not sufficiently revealing. We contacted Bloomberg editorial staff to gauge their reflections on our observations. These interviews, coupled with examination of Bloomberg's reflexive approach to house style, were revealing in that they exposed the global branding imperative lying beneath this carefully formulated editorial strategy. All of our interviewees wished to remain anonymous.

Accordingly, our route through the material is interdisciplinary. First, we analyse the context, both historic and current, of the emergence and power of news agencies in order to situate Bloomberg against its rivals such as Thomson-Reuters. Then we explore Bloomberg itself, the working environment for journalists and its driving editorial imperatives which are revealed through style book analysis and interviews. Finally, we undertake our comparative linguistic analysis of Bloomberg's coverage to illustrate how "process drives content" (Machin and Niblock, 2008).

The Rise of Market-driven News

The success of Bloomberg's strategy becomes understandable when seen in the light of the contextual shift in the news industry. Deregulation from the 1990s onwards has led to increasing commercial competition between news media (Bourdieu, 1998; Hallin, 1996) which led to downsizing through merged news operations. This has led to a disappearance of titles, increased syndication of material and also to waves of

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redundancies and much smaller news teams (Machin and Niblock, 2006). Remaining editorial staff have far fewer resources for gathering their own material or even for routine checking. The situation has been compounded by a significant downturn in advertising revenue as companies turn to alternative, cheaper promotion routes through the Internet. There has been a corresponding growth in press offices and public relations departments which now feed reporters and news rooms with pre-packaged material. There has also been a similar growth in news agencies which operate to repackage and recycle news which they then sell on (Machin and Niblock, 2006).

News corporations are seeking ways to salvage titles with targeted news. Machin and Niblock (2008) looked at the way one title, the UK regional morning newspaper *Liverpool Daily Post*, had re-launched and re-branded, to seek out specific smaller advertising niches. In 2009 another UK regional title, the Birmingham *Post*, shifted away from addressing a wider public to targeting the business sector. The success of targeted news, at least in the United Kingdom, is evident in a report published by OC&C Strategy Consultants in November 2009. The list of the country's largest media groups ranked by revenue is dominated by companies that charge their customers. Those whose profits depend primarily on advertising—including broadcasters such as ITV and Channel 4—have fallen down the league table during the worst recession in the industry for a generation. At the top of the list is Bloomberg's UK rival Thomson-Reuters, which until recently was the leading provider of global finance analysis and news. In the United Kingdom, *The Economist* magazine has had a slow but steady increase in circulation according to the Audit Bureau of Circulation (July to December 2009) in sharp contrast with mainstream newspapers. In the United States, the situation for print outlets has been tougher, with a Conde Naste launch, *Portfolio*, closing soon after it opened. But the online business-targeted sector appears to be growing in prominence, with Bloomberg leading the way.

Bloomberg News is the rapidly expanding arm of the established US Bloomberg L.P. (Limited Partnership) financial data company. It comprises a global text-based news service, a television station, radio and podcast service, an Internet site and printed publications including a magazine and books. Founded in 1981 by the current Mayor of New York City Michael Bloomberg, the company provides financial data, analysis and news to financial and business organisations globally through the Bloomberg Terminal. Bloomberg Professional subscribers pay a set monthly fee to receive Bloomberg's services via a dual-screen desktop terminal "Native Client", referred to as "The Bloomberg" by staff. The machine comprises a bespoke colour-coded Bloomberg keyboard that enables instant access to global business data. Subscribers are also provided with a username and password that enables them to log-in to the service remotely wherever they are in the globe over smart phone handsets.

The Bloomberg news operation was launched in 1991 to compete fully with the Dow Jones News Service and Reuters, as it was before it merged with Canadian media giant Thomson. Bloomberg states:

> Even in its embryonic state, the Bloomberg system was already a news machine. Although it provided only numbers, graphs and charts, it delivered the most valuable news a money manager could use: process, relative values, and trends. And that news wasn't coming second-hand from any wire service, newspaper, magazine, or electronic broadcast. It was presented as it happened. By contrast, by the time anyone read a newspaper report on the price and yield discrepancies that create investment

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possibilities, it was too late. The buying or selling opportunity had probably vanished. (1997, p. 75)

Bloomberg reports more than 100,000 users in North America, and more than 150,000 in the rest of the world. In July 2008, Merrill Lynch agreed to sell its 20 per cent stake in the firm back to Bloomberg, for a reported $4.43 billion, valuing the firm at approximately $22.5 billion.[2] With 2300 people, Bloomberg News employs one of the largest editorial staffs in the world. The journalists work out of 135 bureaus, 30 of which are located in the Asia-Pacific region alone to reflect the growing economy in that area.

At the time of writing, 10 papers around the world, including the Spanish-language edition of the *Miami Herald* and *Tages-Anzeiger*, the second-largest daily in Switzerland, run branded Bloomberg News pages. Interviews we conducted with senior staff from the BBC World Service and BBC News pointed to their own retreat from attempting to cover international events due to the need to control costs and the ability of competitors such as Bloomberg to provide this much cheaper. In this way, the Bloomberg news service is growing in status off the back of a failing mainstream newspaper and news industry. While "traditional" corporations, such as News Corp, have been exploring methods of charging for online content, Bloomberg already has a profitable business model that does not rely on charging for content or competing for advertising revenue which has provided the biggest challenge for existing news outlets.

Wall Street Journal reporter Matthew Winkler was handpicked by Michael Bloomberg to devise the service and its driving ethos, The Bloomberg Way. Here the particular style of news delivery, one which emphasises fast delivery of core information, was to be part of a marketing strategy to attract further uses to the core financial services. Bloomberg wrote:

> Our purpose was to do more than just collect and relay news; it should also, ethically, advertise the analytical and computational powers of the Bloomberg terminal by highlighting its capabilities in each news story . . . More retrievals meant more rentals, which meant more revenue, which in turn meant we could afford more reporters and have more news, and so on. Accordingly, every initiative—the magazine, television, radio—is valued not for the revenue it brings in but for its contribution to making the core Bloomberg product, the terminal, more indispensable. (1997, p. 83)

One important feature of this process is a reversal of an established news convention; that international events are given a local inflection in order to fit with local news frames (Galtung and Ruge, 1965). Bloomberg specialises in connecting the local to the global by locating all events within the global market system, highlighting their relevance to trade, investment and broader economic patterns.

News Agencies and the Market

The first news agencies started in the late 1840s in Germany (Wolff), France (Havas) and the United Kingdom (Reuters). Other national agencies followed, but these three major agencies monopolised the flow of news and formed a cartel that divided up the world in a way not dissimilar to how power-building nation states in that same period formed their colonial Empires. In this arrangement the big three agencies had monopoly access to the national agencies in their territories, and these national agencies in turn (and therefore also the newspapers that relied upon them) could only buy news from that global agency. These agencies reported factually, in contrast to the politicised print media,

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pioneering a "journalism of information" (Boyd-Barrett and Rantanen, 1998, p. 7). Emphasis was placed on new-ness and speed. The cartel collapsed when, in 1934, UPA (United Press Association) refused to join and began its own global operations. The other major American agency, AP (Associated Press) followed suit. From this moment, the major news agencies began to compete with each other and the United States, rather than Europe, became the major player. The new global agencies that started in the late twentieth century were all American: Knight-Ridder, Dow Jones and Bloomberg.

From their origins, the news agencies provided not only news to the press, but also business intelligence to financial brokers and business people. They were among the pioneers of market-driven global media communication as their practices synthesised economics, culture and politics. Their founders had all worked in banking prior to establishing their agencies, which were based close to or within the Stock Exchanges of London, Berlin and Paris. They saw news as a commodity, supplying traders with the opening and closing prices of the stock exchanges as swiftly as possible, to enable them to keep ahead of their competitors. The news agencies of today have not changed considerably in this respect (Boyd-Barrett and Rantanen, 1998, p. 62). In the late 1990s more than 90 per cent of Reuters' revenue came from financial services.

In 2000 Reuters was operating at twice the revenues of Bloomberg whereas by 2006 they were roughly the same (Loomis, 2007). While Reuters merged with Thomson in 2008, Bloomberg continued with its own strategic acquisitions, buying up *Business Week* in 2009 with the precise plan of expanding its terminal users and website subscribers. One of our interviewees pointed to this as clear evidence of the Bloomberg vision that the future of news provision would be on the Web and for the niche rather than general market.

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The Bloomberg Newsroom

Bloomberg's newsrooms are meant to mirror the global financial market they serve, with grand city centre locations, bold design and an atmosphere of unswerving dedication to the business. For instance, its impressive London bureau is based in adjoining buildings in Finsbury Square, near the financial heart of the City. Visitors and staff enter through what was originally a sedate gentleman's club designed by Giles Gilbert Scott into an ultra-modern environment that works on every sense. Security-staff direct all arrivals up an escalator straight into a busy communal space offering free food and drink. The ready supply of refreshments ensures staff members remain in the building and are not tempted too far from their workstations. Set over several floors, the bureau spreads over into a futuristic, metal and glass Norman Foster creation. There are no partitions between workstations or indeed offices, though clear glass is used to provide discreet meeting spaces and quiet zones for the broadcast production suites which are in constant use. Different departments are colour-coded, divided up into harder working zones and soft areas with sculptural seating. Tropical fish aquaria offer a soothing backdrop to frenetic activity as journalists strive to break stories before their rivals. Their concentration is punctuated by regular audio jingles and the flicker of neon screens. The staff are smartly dressed in suits and predominantly young.

While the London bureau is not a 24-hour operation—the news service switches to other countries depending upon the hour of day, journalists are at their desks by 7 am, familiarising themselves with the markets. The news team is divided into different sections including industries, markets, economy as well as non-financial "beats" such as law,

environment, science, sports, arts and culture. There is inbuilt competition amongst each team as journalists strive to achieve the lead story in each section. Each new recruit undergoes a period of training in the in-house protocol *The Bloomberg Way*. This style guide was written by the founding editor-in-chief Winkler to govern every minute detail of the crafting of copy, and is not publicly available.

Amongst our interviewees were two Bloomberg financial reporters, who could not be named to protect their identities. A direct request to interview the head of training had earlier been declined. The reporters, who underwent full training in the Bloomberg Way, identified the abiding principles that are constantly reinforced in the workplace. We look at these closely as they help us to understand the nature of the news texts that we analyse in the next section:

- Accuracy.
- The importance of real time.
- Control of editors.
- Preparation.
- Internal competition.
- Audience monitoring.
- Precise use of language.

Our interviewees said that factual accuracy was drilled into trainees as being of paramount importance. All stories needed to be referenced by two named sources which were to be placed in the first two paragraphs. This meant that often stories would not be run by Bloomberg that other outlets might carry. The interviewees said that they found this frustrating as they would often have trouble finding a second source prepared to go on record. Veracity was, they were drilled, crucial to the brand image. But on the other hand, they admitted that this added to a sense of veracity and reliability of the stories that Bloomberg carried.

Bloomberg, in keeping with most newsrooms, maintains a calendar of future, predicted events, such as company annual reports. The interviewees said that it was practice to draft two stories to have on hold for the announcement of event outcomes; one to be used if it was positive the other if it was bad, each including interviews from experts that explained each eventuality and why it had happened. This was important in order for the up-to-date nature of Web news. One interviewee who had since moved on from Bloomberg to a rival agency said that Bloomberg appeared to be ahead in the realisation that news production had to be geared to needs of the Web for up-to-date material. Much of their daily work involved the continual update of their stories. One interviewee who had worked for a number of other agencies beforehand commented that it was only possible thanks to the heavy resourcing and staffing of the Bloomberg news operation.

Internal competition is maintained at Bloomberg through reporters striving to have their work in the main top 10 headlines on the portal at any one time. But one interviewee explained: ''Stories that get into the top 10 get much more attention from editors and you will see these change a lot on the terminal, having frequent updates''. Bloomberg uses users' accounts to the terminal to observe which stories people are reading, and will develop or repeat these stories. Several interviewees pointed quickly to the way that Bloomberg had also realised that the Internet provided the opportunity to observe what clients want, and adapt to this in real-time. One interviewee, who had worked for other

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agencies, did mention that this attention to client needs, for him, raised the issue of news being written and developed not in the first place for citizens, but rather for niche groups. This is a trend we have observed elsewhere through research into branding newspapers and radio news (Machin and Niblock, 2006, 2008). One interviewee marked this as a key difference between writing for Bloomberg and for other agencies he had later worked for. He said that the Reuter's style was very different for the financial and general news, where the latter was aimed at a broad range of clients, such as radio, tabloids and broadsheets. Bloomberg, he viewed, had been the first to adapt to the trend away from clients being willing, or having the finances, to simply opt into feeds as characterised the former "wholesale" pattern of agency operation.

The international nature of Bloomberg is key to explaining the massive control of editors over all details of stories. One reporter told us that his completed story would be first filed to his own bureau editor who would text-edit where appropriate and return it to him to check the changes. The story would then be filed to the editor of the region's main bureau who may make further changes. If the story was likely to make a lead, then there might be a phone conference with editors across the region. The control of editors over reporters' copy became even more acute when preparing drafts for features. One reporter said: "Everyone dreaded this". He would draft a number of paragraphs of a story. Then it would go out to regional editors in two bureaus before being sent for inspection to the head office in New York. At each point it would be sub-edited and requests for additional reporting were made to the journalist. The absolute precision required meant that the reporter had to even go back to interviewees to ask them to rephrase terms like "drab" which were too vague for a global audience: "And at each stage it goes back through all the editors who rewrite".

Bloomberg texts have trademark specificity of information. They also tend to avoid clichés and stereotypes as these too are culturally specific. One interviewee told us: "If I was a foreign correspondent in for a British newspaper working in, say, Sydney, I would always look for stories that fitted the stereotypes held by the British, such as the idea that people in Australia drink a lot or get eaten by crocodiles. But in the Bloomberg universe these clichés cannot be relied upon as a person in Malaysia, or a Malaysian person working in a bank in London may not share the same reference points".

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The Bloomberg Style

Bloomberg has been clear about the nature and aims of its news language style emphasising directness, simplicity and accessibility of core information. Paul Addison, Bloomberg's London-based head of training, did tell us: "We've always been a global news service, proud of our global style of journalism and it's been an extremely successful model". This mandate to write news that works for audiences in any location is emphasised and described in *The Bloomberg Way*, which begins: "Bloomberg News is a global news organization, and our style must be rigorous enough to reach every reader with the same message, free of ambiguity". It urges simplicity and clarity:

> Economics, markets, companies and industries are subjects little understood, much less appreciated. The public—our readers, viewers and listeners worldwide—suffers the consequence of journalism's traditional ignorance of these subjects and journalism's arrogance in reveling in its ignorance. The reporter who hasn't covered economies, markets, companies and industries is deficient in knowing the ways of the world.

The use of the word "but" was allegedly banned by Winkler, along with "however" and "despite" as it forces readers to deal with conflicting ideas in the same sentence. Winkler elaborates in *The Bloomberg Way*:

> Determine the key piece(s) of information. Failing to include the most important facts in the theme, or including too many facts, makes it difficult to attract readers' attention. Include the "why" along with the "what." Without providing the explanation as part of the theme, the quotation and details don't help the story.

Example of the Bloomberg Branded Style: The Death of Michael Jackson

Bloomberg news copy differs in language style, grammatical structure and content from other mainstream news services, specifically Reuters and the British *Guardian*, according to our analysis. The comparison with the other major news brands identifies Bloomberg's specificities as well as highlights the local inflections in other brands' respected for their neutrality. For this we draw on three approaches from linguistics: Halliday's (1985) categories of clause relations are used in order to measure degrees of grammatical complexity in the stories; Fairclough's (2000) Critical Discourse Analysis is used for basic lexical analysis; Appraisal Theory (Martin and White 2005) allows us to show levels of journalistic interpretation in texts. The Jackson story allows us to best illustrate the extent to which many news "brands" apply a degree of value judgement and interpretation to news items. Conversely, Bloomberg's treatment does not assume prior knowledge or opinion on the part of their readers, who could live anywhere in the globe. It assumes readers may not have heard of Jackson. In addition to copy text, we analyse headlines, clause structures and lexical content in comparison with other news providers.

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Bloomberg Version

> Michael Jackson Pronounced Dead at Hospital, L A Times reports
>
> Singer Michael Jackson was pronounced dead at a Los Angeles hospital today, the *Los Angeles Times* reported, citing city and law enforcement sources.
>
> The singer wasn't breathing when paramedics arrived at his home in the wealthy neighborhood of Bel Air at about 12:26 p.m., the newspaper reported on its Web site, citing Captain Steve Ruda. Jackson was taken to UCLA Medical Center.
>
> Jackson, 50, became a musical icon as front man for the Jackson 5 family music act in the 1960s and later was a top-selling solo performer with hits such as "Thriller" and "Billie Jean." He is as well-known for his highly publicized trial and acquittal in 2005 on child molestation charges.
>
> The singer was attempting a comeback and had been rehearsing for sold-out shows at London's 20,000-seat O2 arena scheduled, starting in July. In May, the organizers delayed some of the 50 performances to give the singer more time to prepare.

Headlines

Bloomberg headlines are highly descriptive and always appear as information rather than the promise of a narrative or a teaser. On the same day the *Guardian* used "Michael Jackson Dies". Reuters used "King of Pop Michael Jackson is dead" and the *Washington Post* "Michael Jackson, 'King of Pop,' dead at 50" which it took from the Associated Press feed. Many of these treatments use pop culture honorifics ("King of Pop", for example) in headlines serving to place the stories into the "entertainments" genre. Bloomberg simply states factually "Michael Jackson Pronounced Dead at Hospital". Only the *Guardian* is equally as directly informative although its "Michael Jackson Dies" does suggest something more of a teaser with its simple single noun/verb clause lacking in further detail.

Opening Sentences

The Bloomberg report begins with a clear opening theme explaining what is at stake, backed up with support. As stated by Winkler, the first paragraph should state the most important detail up front without delay. Bloomberg places great store on opening sentences as providers of core information rather than setting up narratives. The simplicity of Bloomberg's opening sentence can be seen through comparison with the *Guardian* opening paragraph:

> American pop music legend Michael Jackson died of a heart attack in a Los Angeles hospital today, just weeks before he hoped to resurrect his four-decade long career with a series of sold-out shows in London.

This sentence is much more complex. Drawing on linguist Michael Halliday (1985, pp. 2002–219) who was interested in clause relations in language we can explain the difference between these two sentences and how these influence the relative ease of readability and pace of information. Halliday was interested in the way that clauses follow on from each other in order to build on information provided in those before them in different ways. He offered three ways in which subsequent clauses can do this: elaboration, extension and enhancement. He later developed on these, but they are sufficient for our purposes here:

- Elaboration restates, providing equivalent information. We learn no additional information. Such clauses often start with "for example", "for instance", "in particular", "at this moment".
- Extension adds or varies the meaning of the first clause by providing extra information. Here the meaning of the first clause can be modified. So a first clause might tell us a person has died and the second that he was bizarre, or innocent. This therefore varies how we read the first clause. The meaning of the death is modified. Such clauses often start with "and", "but", "alternatively".
- Enhancement is where circumstantial information that is relevant to the first clause is given in the following clause. So this is to do with time, place, condition etc. Such clauses often start with "then", "before that", "soon", "in other respects".

The first sentence of the Bloomberg text contains the first clause: "*Singer Michael Jackson was pronounced dead*" which is then followed by the subordinate clause "*at a Los*

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Angeles hospital today" that provides enhancement telling us where this took place. It is a pretty simple clause structure. The first sentence of the *Guardian* text above is different. We have a longer "head", which is the noun group, "*American pop music legend Michael Jackson*" compared to Bloomberg's shorter and less evaluative, "*Singer Michael Jackson*". This longer head is placed into the opening clause "*American pop music legend Michael Jackson died of a heart attack*" telling us he has died, then an enhancement clause "*in a Los Angeles hospital today*" telling us where this happened and when, followed by another two extension clauses "*just weeks before he hoped to resurrect his four-decade long career*", and "*with a series of sold out shows*" and further enhancement, "*in London*". This is a much more complex clause structure than in the Bloomberg case, bringing in more information through both extension and enhancement that Bloomberg would save for later paragraphs, specifically paragraph four.

The opening sentence of the Reuters text shows even more complexity in its clause relations:

> Pop giant Michael Jackson, who took to the stage as a child star and set the world dancing to exuberant rhythms for decades, died on Thursday after being taken ill at his home, the *Los Angeles Times* said.

There are three embedded clauses "*who took to the stage as a child star*", "*and set the world dancing to exuberant rhythms*" and "*for decades*" within the dominant clause "*Pop giant Michael Jackson . . . died on Thursday*". The embedded clauses are linked by extension where the second of these "*and set the world dancing to exuberant rhythms*" brings additional information after the conjunction "and". Following the completion of the dominant clause we have another enhancement "*after being taken ill at his home*". This is a far more complex clause structure and presents much more enhancement and additional information. Halliday's categories help find evidence for Bloomberg's own assertion that opening sentences should be simple, providing a direct opening theme.

Moving on to the second paragraph, Bloomberg's style book guides that here we should find quotation from an authority on the subject who gives credence or validates the first paragraph. In the Jackson case we find precisely this:

> The singer wasn't breathing when paramedics arrived at his home in the wealthy neighborhood of Bel Air at about 12:26 p.m., the newspaper reported on its Web site, citing Captain Steve Ruda. Jackson was taken to UCLA Medical Center.

Reuters also carries a quote but includes the basic information that Bloomberg placed in the first paragraph:

> "Pop star Michael Jackson was pronounced dead by doctors this afternoon after arriving at a hospital in a deep coma, city and law enforcement sources told *The Times*," the newspaper reported on its website.

The Guardian does something similar, producing a more elaborated version of what Bloomberg placed in its first paragraph:

> Jackson was taken to the University of California at Los Angeles medical centre, and paramedics administered cardiopulmonary resuscitation in the ambulance. He arrived at the hospital in a coma and was reported dead about three hours later.

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Bloomberg avoids placing any broader contextual information at the start of the story. It is only specifically *what* has happened as the news event that appears in the first paragraph and a substantiation of this in the second.

The importance of the third paragraph in the Bloomberg style book is to spell out the significance of the information that has been imparted in paragraphs one and two, while paragraph four provides further illuminating factual detail. Looking to the third and fourth paragraphs of the Jackson text above, what we find is that paragraph three provides a short summary of who Jackson was in simple sentences without embedded clauses. There is also an assumption that the reader may not have extensive previous knowledge of Jackson. This same information was placed much higher up in the *Guardian* and Reuters texts. Only paragraph four of the Bloomberg text places the events of his death in the narrative of the come-back tour.

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Entertainment Lexis

There are other important stylistic differences between the three texts. We find difference also in basic lexical choices in the writing. The Bloomberg text refers to Jackson as "Singer Michael Jackson" and "Jackson". In contrast Reuters use pop honorifics/cliches in the form of "Pop star Michael Jackson", "Pop Giant", "King of Pop". The *Guardian* uses "American pop music legend" and "King of Pop". Bloomberg avoids these "entertainment and lifestyle" style terms.

Language of Evaluation

In the Bloomberg text we find an absence of what linguistics have called the "language of evaluation" (Iedema et al., 1994; Martin and White, 2005). These writers sought to provide a framework for the analysis of the evaluative aspect of news reporting. This draws on a paradigm known as "appraisal theory" and aims to account for the variation in the mechanisms by which attitudinal positions can be conveyed and by which the reader can be positioned to favour or disfavour a particular viewpoint. These features are often less evident to the reader as they do not appear as obvious opinion. Such techniques are common in creating drama and human interest.

In tabloid-style reporting, emotional reactions to events are used to evaluate a person positively or negatively. The *Guardian* notes Jackson's death came "*just weeks before he hoped to resurrect his four-decade long career*". The evaluations here are "hoped" and "just". Additionally, giving readers access to a person's mental world also has an effect of humanising a story. The fact of "hoping" adds human feelings and tragedy. The term "just" is therefore also an important evaluation, implying the sad timing. This also allows the journalist to link in other events to create a narrative of failure and hopes of renewal of which this story is just one part.

We also find language of evaluation in the following sentence from the *Guardian: "Although in the last two decades his reputation was sullied by accusations of child molestation and his bizarre public behaviour"*. The words "sullied", and "bizarre" are what appraisal theorists term "appreciation" and are the more obvious ways that journalists provide assessments of states of affairs and processes in terms of their social significance. Such evaluative terms are absent from the Bloomberg text. It does mention the child

molestation but refers to it in the sentence "*well-known for his highly publicized trial and acquittal in 2005 on child molestation charges*". The text makes no attempts at dramatization and clearly mentions the acquittal from the charges. Likewise in the Reuters text we find the use of hyperbole and rhetorical tropes as in the sentence he "*set the world dancing*". Again such techniques are avoided by Bloomberg.

As we were told by our interviewees, all of these evaluations cannot be used in Bloomberg texts. In the first place they cannot be specified or justified. A phrase like "*set the world dancing*" would have to be described in terms of concrete record sales. In the second place such evaluations can carry cultural inflections and values that may not be recognised across all the Bloomberg users. During training, reporters were continually told to check if their stories contained any word that might be culturally specific and if so to remove it.

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Swine Flu in the United States

We now look more briefly at Bloomberg's reporting of the rise of HINI swine flu cases in the United States, comparing this with the headlines and opening sentences of two other agency treatments. This comparative analysis enables us to delineate further Bloomberg's distinct approach compared with other similar global agencies.

Bloomberg Version

Swine Flu Dominates in U.S. Where 98% Test Positive (Update1)

Swine flu is responsible for about 98 percent of the influenza cases tested in the U.S., overshadowing other strains in a population with little natural resistance to the new virus, a U.S. study found.

The new flu, H1N1, is widespread across 11 states and circulating in parts of 19 others, according to a report by U.S. Centers for Disease Control and Prevention scientists presented today in Atlanta. The number of seasonal flu cases has declined as swine flu spread after it was first identified in April.

Scientists have used laboratory tests to confirm 27,715 cases of swine flu in the U.S., and as many as 1 million people may have been sick and not had testing, the CDC said. Widespread flu is unusual in the U.S. at this time of the year.

"We're all tightening our belts—there isn't anybody that does not anticipate that we're going to be dealing with this virus in a serious way this fall and winter," said William Schaffner, an influenza expert at Vanderbilt University School of Medicine in Nashville, Tennessee, in an interview at the conference.

The Bloomberg formula is again carefully followed. The headline is direct and provides full information. The opening sentence is a simple clause structure and highly descriptive as will become clear when we look at the other news treatments. The second paragraph provides the sourcing of the information and the third and fourth paragraphs expand on these.

Looking at the headlines and opening sentences from Reuters and the Associated Press feeds we find something very different.

Reuters

New H1N1 flu not going away: U.S. health agency

More than 1 million people in the United States may have been infected with the new H1N1 swine flu, U.S. health officials said on Friday, and infections continue to rise.

Associated Press

US swine flu cases may have hit 1 million

Health officials estimate that as many as 1 million Americans now have the new swine flu. Lyn Finelli, a flu surveillance official with the Centers for Disease Control and Prevention, voiced the estimate at a vaccine advisory meeting Thursday in Atlanta.

Both of these feeds use sensationalist headlines or opening lines which suggest the disease is now reaching epidemic proportions. The Associated Press uses a metaphorical trope in the form of "hit" which suggests something that possesses momentum and which has collided. Reuters adds a menacing subordinate clause "and infections continue to rise", for which they give no evidence but which invites less attention as it is placed in this way in the sentence. Linguists have observed that this is a typical rhetorical strategy for downplaying some facts while foregrounding those that are placed at the start of the dominant clause (van Dijk, 1985). The Associated Press qualifies the nature of the facts with "*voiced the estimate at a vaccine advisory meeting Thursday in Atlanta*", again using the subordinate clause to "bury" this information at the end of the long sentence. Reuters also use the modal verb "may have been" to indicate that the level of infection is not a hard fact. So both Reuters and the Associated Press eventually come around to telling us what the Bloomberg text places right at the top; that this is an estimate and that it appears that swine flu is replacing other strains of flu. Bloomberg does not overplay the drama. Interviewees said that both these other feeds would simply be rejected by the Bloomberg editorial process.

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News Selection Criteria and the Politics of Market-led News

This close comparative analysis of the Bloomberg treatment of stories reveals the recurring characteristics of Bloomberg's global news style. Stories follow a four-paragraph lead approach that stresses facts, insists on official verification, delivers context and avoids culturally specific emotive responses. The story does not assume prior knowledge on the part of the reader, even though the target audience is an actual or implied international community of business people and financiers. Nor does it patronise; by avoiding qualifiers, adjectives and other emotive devices, the information is delivered simply and concisely in order to cram in as much factual detail as possible in the given space. In essence, this appears to exemplify good practice; the niche business journalism model transferred to mainstream news would appear to work successfully for a global audience. However, a different impression emerges when we examine stories that have a more political dimension. This is an observation confirmed by our interviews.

Bloomberg.com's lead story on the general UK news section of its website at 10.30 am on 8 July was headlined "*London Postal Workers Commence Three-Day Strike Over Royal*

Mail Job Cuts". The first paragraph states: "*London postal workers began a three-day strike in a dispute over workforce reductions at state- owned Royal Mail Group Plc.*" which, true to Bloomberg style, relays the key factual angle of the story, although one of our interviewees pointed out that this was clearly a first draft as the word "postal worker" would have been changed to "mail workers" as indeed it quickly was as postal was too locally specific. The story gets a very low billing on the BBC website, appearing as a minor story on the UK-wide section of their website. Reading further into the story, it could be deduced that the news selection criteria applied when giving this story top billing are to do with its status as a business story. In paragraph six, Bloomberg continues:

> The U.K. government last week postponed a plan, opposed by unions, to sell a stake in Royal Mail to an investor to help improve competitiveness. The company has suffered a 10 percent decline in annual postal volumes, while in London 20 percent fewer items are being delivered daily than two years ago.

The underlying inference is that management's capitulation to unions has led directly to the current crisis. This clause "to help improve competitiveness" is unqualified. In linguistic terms this is an undefined presupposition. The broader discourse signified by this clause is the insertion of "state-owned" in the first paragraph. It is taken for granted on the Bloomberg terminal of course that private business is good and state involvement is bad. In this case it is clear that Bloomberg branding means placing the interests of business in its general news item. Yet in the branded language and format style the directness and simplicity of clauses creates a sense of pure information in the manner of the Jackson story. Fairclough (2000, p. 14), in his study of the kind of language used by Tony Blair's New Labour, emphasised that language style can also be important in connoting particular kinds of values and identities despite the nature of the discourse this style carries. Other writers have observed that genre, as well as language style in media, can be a template which appears neutral but yet which too can appear to naturalise contents (Machin and van Leeuwen, 2007). Here the genre of the "information bulletin", as opposed to say "narrative" can contain deeply ideological material formatted as simply information. There is a long history of politicians and propagandists using particular styles and genres in order to persuade audiences their speeches were other than pure ideology (Bell and Van Leeuwen, 1994; Leitner, 1980).

In a similar way, on the same morning, Bloomberg's Science section foregrounded the "swine flu" pandemic, which has the potential to disrupt the economy severely if enough people are affected by the virus in coming months. Several of the site's stories were about swine flu. The BBC's lead science story was different, that researchers in the United Kingdom claim to have created sperm from stem cells, and did not feature on the Bloomberg site until much later in the day. At that current point in time it was clear that this story was more social and medical than economic. It has therefore less value to Bloomberg's targeted global business community.

The Arts and Culture section is revealing of the extent to which Bloomberg seeks to address directly specific local markets and particular times of the day. These stories can be uploaded more quickly but then edited as soon as it becomes more relevant to speak to the global users. The lead morning story on the section was London-based, to appeal to the business community arriving for work:

> Christie's Sells $32.7 Million of Art in London Auction as Market Shrinks

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A London auction ended with the sale of 20.3 million pounds ($32.7 million) of art last night as the market for traditional paintings continued to shrink.

The selection of this as the leading arts story also coheres with the business imperative of Bloomberg's global branding of news. The lead story is as much news because of the scale of the money involved. This angle is emphasised over and above the nature of the art itself. The unifying global angle is, therefore, the financial aspect of the story rather than the cultural. By the end of the day in London, as the New York business day was well under way, the story order had shifted to lead on an interview with a Harvard scientist-turned-author. Most of the stories that were around that morning were still on the list at the end of the day, but displayed with a different running order that caters more to a US market. The interest in the Michael Jackson story quickly moved on to issues of the value of his estate and the matter of his inheritance and the related legal issues.

Our interviewees confirmed our observations that stories had in the first place to be thought about in terms of the business audience. One said "we are only interested in the occupation of Palestine, for example, if it might be of interest to the financial markets". He acknowledged that this raised serious issues about the growing power of Bloomberg as a global provider of news. And particularly this global "community" of users of the terminal, holding much power over the flow of wealth around the planet, are experiencing the world of events only in terms of the interests of making money.

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Conclusion

Bloomberg's model of news production has allowed it to continue to grow while many other news outlets look to slim down and are losing money. Bloomberg has been able to embrace shifts in technology and changing cultures in both news consumption and news agency/client relations, giving it a market advantage over its competitors. If the Bloomberg model is the future of news then this calls us to reconsider the existing work on news values. In earlier papers we have considered the shift away from news for citizens to news for consumers (Machin and Niblock, 2007) and for niche markets. In each case it was clear that earlier models of news values had to be reconsidered. With the shift from print-based journalism to the Web there will be the broader need to address less localized and more niche markets who are task driven rather than entertainment driven and who may indeed not have entered through the "front door" but through search engines. This will have implications for news style and content. Along with the business imperative these are new challenges to our models of journalism that certainly require our increased attention.

NOTES

1. See http://www.ft.com/cms/s/0/b18d45e0-e296-11de-b028-00144feab49a.html.
2. See http://www.guardian.co.uk/business/2008/jul/18/merrilllynch.jpmorgan.

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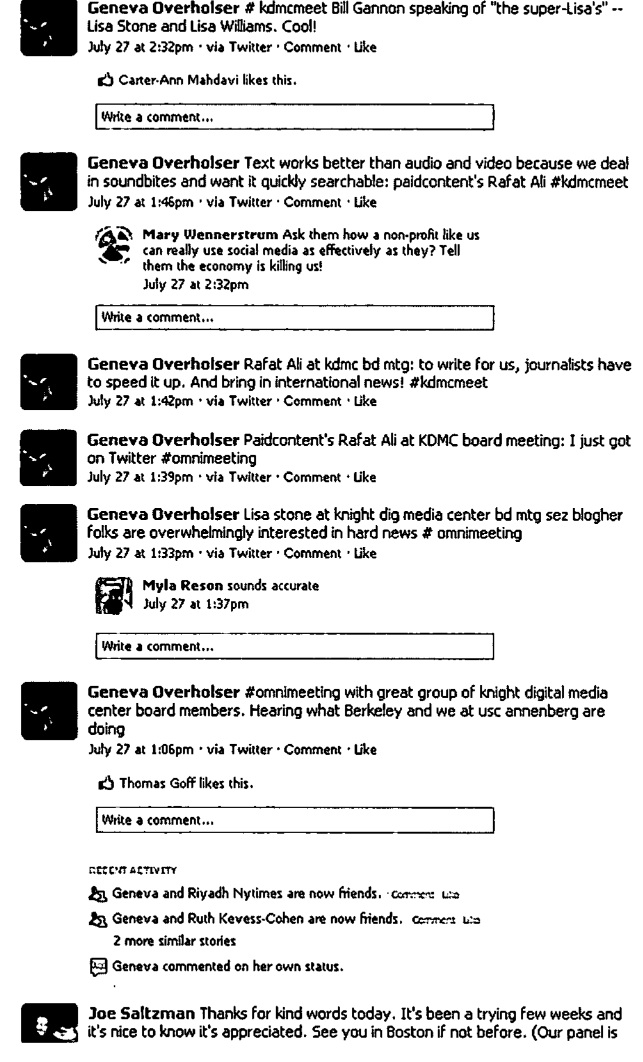
What Is Journalism's Place in Social Media?

'Bringing our journalistic values to these environments that have captured the imagination of millions is one of the most promising ways we have of serving that interest.'

BY GENEVA OVERHOLSER



Geneva Overholser's Facebook page.

If our focus on social media is primarily about how to use them as "tools" for journalism, we risk getting it backward. Social media are not so much mere tools as they are the ocean we're going to be swimming in—at least until the next chapter of the digital revolution comes along. What needs our attention is how we're going to play roles that bring journalistic values into this vast social media territory.

It is essential to begin by understanding various social media sites and the ways they can enhance the work journalists do. A regular perusal of sites like 10000words.net and savethemedia.com is a great way to do this. But how do we move beyond acquainting ourselves with this world and actually figure out how to "use" it for journalism, which requires understanding its nature and impact on participants and on public life?

What does it mean to journalists, for example, that people are in large measure obtaining, and shaping, their information so differently than they have in the past? In June, as I got on the plane to fly back from the National Association of Hispanic Journalists convention, a young woman cried out: "Michael Jackson died!" Using my iPhone, I Googled "Michael Jackson died." Several reports showed up—all from years long-gone. His was a much-rumored death. So I checked Twitter, and found the TMZ report—couched in some skepticism from my tweeps. On to the Los Angeles Times, where Jackson was still in a coma. Now the flight was leaving. Not until I landed did I get the confirmation I itched for: the Times, quoting the coroner.

But what if TMZ had quoted the coroner? Would I have stopped there?

This raises questions about what verification means in this age of social media. And what is journalism's role in making sure information is verified? It strikes me that most people don't care as much about who publishes news (or what are often rumors) first these days as they do about whether the sites they rely on have it right when they want it. Now, as we all know, news and information need to be on the platform we're checking, wherever we are.

Being there and being accurate are how journalistic credibility is brought to the social media ocean. Yet many legacy media have fallen behind in delivering this one-two punch combination. While it's a given that there will always be a need for reliable verification,

what must be better understood is how people seek out news and information and how they learn through their use of social media.

Recently, the MacArthur Foundation's John Bracken and I talked about the process by which an online community or group digests an event and comes to an understanding of it in real time. This happens among Facebook friends or people whose tweets we follow or folks who create new records of events on Wikipedia. The question well worth asking is where journalism fits in this fast-emerging and ever-changing social media and digital ecosystem.

During a June conference, "Beyond Broadcast 09,"[1] held at the University of Southern California's Annenberg School of Journalism, conversations ranged from the information needs of communities to democratizing the language of online storytelling, from maintaining editorial quality to enabling dialogue and the future of public service media. Each topic discussed was central to the future of journalism. Yet, never in the three days we were together did I once hear the word "journalism" mentioned. From there I went to a conference at MIT, where the organizing theme was "civic media." In many of these situations, I find myself using the term "information in the public interest." In all these cases, however much journalistic values and practices might be evident, the term itself is absent.

Journalism: The Missing Ingredient

I'm not suggesting that journalism—as a word, a concept, and a craft—has gone away or is no longer important. I'm saying that those of us who ground ourselves in what we know to be an ethically sound and civically essential mode of information gathering and information dissemination have to find a way to be in these conversations—whatever we call the conversations or ourselves. Our job is to keep an eye on the public interest. Bringing our journalistic values to these environments that have captured the imagination of millions is one of the most promising ways we have of serving that interest.

Too often, it seems, those of us who've been about building community through our journalism seem to assume a kind of "how dare they?" attitude toward those who construct communities through social media. We've got to get over that. People are vastly more powerful now as consumers and shapers of news. The less loudly journalists applaud this development, the further behind we'll be left until we fade to irrelevance.

Accuracy, proportionality and fairness, as time-honored journalistic values, are well worth adoption by those conversing through social networks. Useful, too, would be journalism's (albeit imperfect) emphasis on including a broad range of voices. Cool as a lot of these social networks are, they can be extremely cliquish. Witness the prevailing Twitter discussions about whither journalism, often filled with more strut than substance, lacking both historical and international context and begging the question: If the Web is all about democratization, how come everybody in the debate sounds like a 19-year-old privileged male?

In the Classroom

Finally, how do we bring social media into the academy? So far, we at Annenberg have done it patchily by bringing in folks to do series of workshops for students and faculty. We've had regular discussions with digital media innovators throughout the year. One challenge, of course, is that people's level of understanding and comfort is all over the place. Moreover, when the students learning about social media are 18-year-olds, most are already swimming comfortably in these waters. Yet, they do need to ponder—and practice—the new sensibilities required of them now that they will swim there as journalists.

Integrating the questions and issues and tools into everyday classroom discussion is critical. When the focus is on journalistic ethics, the geopolitical implications of social networks' role belong in that discussion. In lessons revolving around entrepreneurial journalism, there needs to be woven into the conversation the issue of how journalists handle their personal engagement in social networks. Along with this would come discussion of how they "brand" themselves for a future that is likely to include a lot of independent activity.

At Annenberg, we've now hired digital innovators and observers—Andrew Lih, author of "The Wikipedia Revolution," Robert Hernandez, who executed the vision for The Seattle Times' Web site, and Henry Jenkins, who directed MIT's Comparative Media Studies program. Using their ability to weave experiences and knowledge into our curricula, we know that social media will become integral to what is taught in our journalism classes. Timely discussions of emerging examples of social media's influence on journalism and vice versa must continue, as well.

The journalism academy has another important role to play. It's the natural home for substantial analysis and research exploring the impact of social media on learning, on the processing of information, and on the civic dialogue. As journalists come to understand the nature and value of information being gathered and conveyed through various social networks, they will not only act more effectively in this new and vital world. They will also enhance the prospects for journalism's long-term survival. ■

Geneva Overholser, a 1986 Nieman Fellow, is the director of the University of Southern California's Annenberg School of Journalism.

[1] See the conference agenda at http://bb2009.uscannenberg.org/images/uploads/agenda_print.pdf.

Social Media: The Ground Shifts

Social networks serving as Web services, not sites, 'create new challenges for journalists, news organizations, and media companies that are only now starting to embrace social media.'

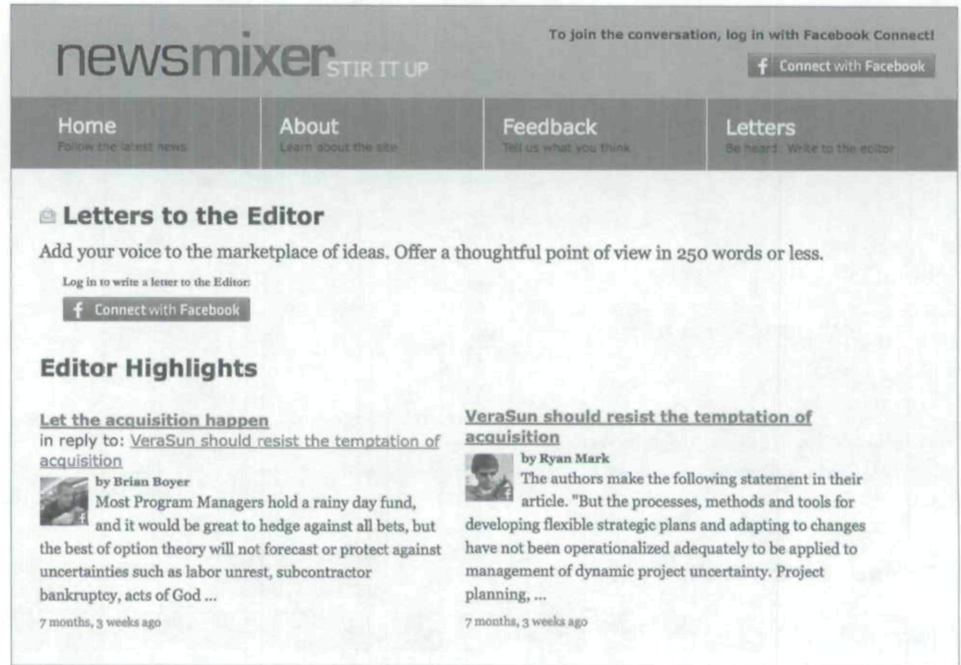
By Richard Gordon

When the history of online journalism is written, it will be hard to ignore the biggest mistake made by news organizations and media companies: thinking of the World Wide Web as primarily a one-way broadcasting or publishing medium.

Back in 1996, when I was the first online director for The Miami Herald Publishing Company, I was as guilty of this misperception as anyone. Our team created discussion boards but hoped they'd require no attention from our staff. We didn't think that cultivating community or moderating discussions were appropriate or necessary roles for a journalist. And we ignored evidence right in front of us—our own behavior as online users—that the most powerful and persistent driver of Internet usage was the value of connecting with other people.

Today, with commenting opportunities available on almost any kind of content Web site, and with Facebook and Twitter empowering new forms of interpersonal communication online, it's hard to find a news organization that's not trying to tap into what we once would have called "online communities" and now more typically refer to as "social media."

So this may not be the ideal time to suggest that the social media landscape is continuing to be transformed in ways that journalists and news organizations will find confounding. Online communities and social networks, which historically have been formed on Web *sites*, are instead becoming Web *services* that shape people's digital lives across many sites and many communication channels. As online users and consumers, we will likely welcome and appreciate this transformation, but it will create new challenges for journalists, news organizations, and media companies that are only now starting to embrace social media.



Newsmixer.us was created by graduate students at the Medill School of Journalism at Northwestern University to test new ways for users to comment on news stories.

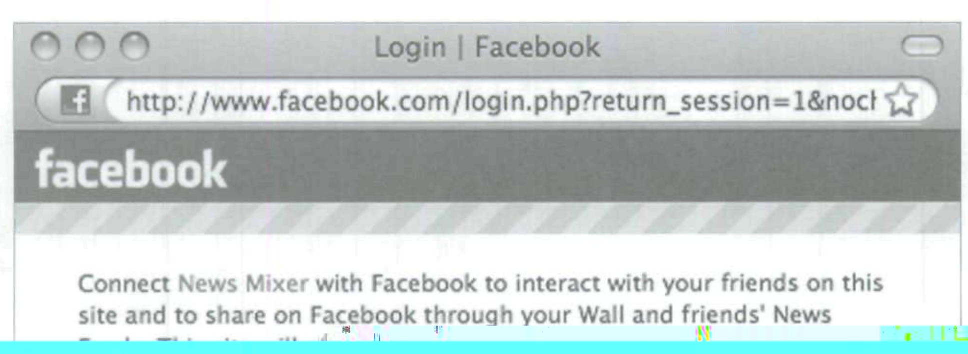
Facebook and Twitter

The two forces driving the latest evolution of interpersonal communication online are now well known: Facebook and Twitter. Savvy journalists and media leaders recognize how important these sites are, but many have not noticed what I think are their most significant attributes:

Facebook, through a service called Facebook Connect, now allows any other Web site to log in users with their Facebook ID instead of a site-specific login. Beyond that, Facebook Connect allows other sites to shape users' experiences through profile information, such as their list of Facebook friends.

Twitter, because it makes tweets available through an easily available Application Programming Interface (API), has enabled the creation of an enormous variety of applications that tap into its ever-growing database of 140-character snippets without requiring the user to visit Twitter.com.

Last year, Forrester Research analyst Charlene Li predicted: "... in the future, social networks will be like air." It will seem "archaic and quaint," Li wrote, that we had to go to a Web site to "be



with comparable tools such as Twitterific for users of mobile phones. As with Facebook Connect, Twitter is enabling people to connect without visiting its Web site.

There are other services trying to capitalize on the same basic concepts—such as OpenID, a service enabling log-ins to multiple sites using the same

sites but also potentially becoming useful partners in selling and delivering targeted advertising on news and media Web sites.

To illustrate some of the opportunities that are presented by the new social landscape, I can point to News M

comments that allow people to leave feedback in a quick, to-the-point form. They're modeled after Twitter and instant messaging.

Letters to the Editor: A very old idea, but with a few new twists. News Mixer calls on letter writ-

Blogs, Tweets, Social Media, and the News Business

'Merely because a technology is popular with some users and journalists does not mean that its use will be beneficial to the news enterprise as a whole.'

BY ROBERT G. PICARD

Judging from their widespread adoption, it's hard to find a technology that news organizations don't embrace. Read the Los Angeles Times on Kindle. Watch ABC News on YouTube. Leave a comment on a blog about media and marketing from the

gies to employ. Most importantly, the decisions reached will vary for different news enterprises based on their circumstances and needs.

Determining Technology's Value

other purposes, especially in creating interactions that strengthen the brand and form and maintain relationships that bond users of various platforms to news organizations. If these are the primary benefits of contemporary technologies, news organizations must

low involvement and fleeting contact or high involvement, which can lead to extended contact. [See diagram on page 11.]

It is still early when it comes to the use of these technologies by news organizations. Already, however, we can find some indications of the effectiveness of these interactive, social and instant messaging technologies.

They tend to be more beneficial for national and large metropolitan news organizations than they are for smaller local ones. This is because they offer

Technology Diminishes Journalists' Value

In May, Robert Picard wrote a piece in The Christian Science Monitor titled "Why journalists deserve low pay." The crux of his argument was that the social value created by journalism isn't enough to pay journalists' salaries and keep news organizations solvent. In arguing his case, Picard points out that economic value for journalists' work arose out of "the exclusivity of

terms. With each new layoff or paper closing, they tell themselves that no business model could adequately compensate the holy work of enriching democratic society, speaking truth to power, and comforting the afflicted. Actually, journalists deserve low pay. Wages are compensation for value creation. And journalists

The

Even wel

company is not shown in a completely positive light, then they want retribution."

Or there's an implicit threat that a reporter just might not get an invitation to a company's next big product release—something that, when issued by a rock-star firm such as Disney or Apple, a tech reporter can't afford to miss. "I find it completely frustrating when public-relations people attempt to control every message and the direction of every story you attempt to do about their employer," says another friend who is a veteran TV reporter in the San Francisco Bay Area, a crack general-assignment journalist who brings a fresh and fairly well-informed mind to business stories. "Some are worse than politicians. And they don't really know what constitutes a legitimate news story. If you offend their superiors, there's always the possibility that they'll cut off access, which puts the reporter in an awkward position. If people at these corporations only understand the concept of takeaway value—which is the general feeling a viewer holds, and is much different from the one or two facts upon which executives angrily fixate—they'd interact with media with much more equanimity."

Public Engagement

Companies are understandably sensitive about their treatment by journalists, since media reports can ultimately influence analysts, investors, consumers, and even the price of a public firm's stock. Just ask the owner of a new restaurant, or the producer of a Broadway show, what a bad review does for business. And it's plainly evident to me that news organizations all too often headline stories critical of a company or industry with an assertion made by a plaintiff's lawyer or activist group, while burying the company's response many paragraphs below. Whether the charge is real or manufactured—and make no mistake, there are cases in which flimsy claims are no more than organized shakedowns—the fallout is real.

In turn, corporations continually court media attention in an attempt to get the kind of coverage that serves as a third-party endorsement of the firm's product or service. While serving as executive editor of the now-defunct *California CEO*, I received dozens of press releases each week from PR firms, asking that we interview this or that CEO or write about a project or product. There probably isn't a company of any size out there that doesn't have someone tracking its media coverage. And it's the rare executive who doesn't regularly read *The Wall Street Journal*, several of the major magazines, and a daily clip file with copies of stories about her company or industry, information that's essential for running a business. Ignoring press coverage is like failing to brush your teeth before a date.

While I've seldom done much muckraking journalism—or at least stuff that could put people in jail—I know that I've angered a few executives and delighted others. In my books and freelance magazine writing, sources who treat me well usually receive commensurate coverage: honest interpretations, with less-than-flattering points put in appropriate context. Since I was a spare-time mainstream journalist, my former employers figured I could work with others of my ilk.

For a brief time in the late 1990s, I was asked to lead a small group within Chevron's Public Affairs department that would proactively reach out to the media and offer the company's executives as sources for stories, so that through these relationships the public might come to better understand the intricacies of the energy business. The effort was a miserable failure. Publications were interested, but Chevron's executives were reluctant to step into the bright lights.

It wasn't that they had anything to hide. It's just that the possibility of a wide-ranging interview that strayed from agreed-upon facts about Chevron and its specific place in the oil business ran against an inherently low-key and modest culture. To many at Chevron, Lord John Browne's speeches about BP going "beyond petroleum" were disingenuous, greenwashing before that term was even coined. I also think Chevron's executives saw the error-prone media in much the way Ohio State football coach Woody Hayes viewed the forward pass: Out of four potential outcomes—a drop, reception, interception, or sack—three were bad.

Chevron's attitude toward the media has since greatly changed, as has that of chairman Dave O'Reilly, once as hesitant to spend much time with reporters as any of his colleagues. He is now an active voice in public discourse about the environment, energy, and social development. "We just weren't ready for that kind of engagement a decade ago," O'Reilly told me during a chance meeting in San Francisco a couple of years back. "Now it's clear that we need to explain ourselves and the consequences of producing energy. It's too important an issue for us not to participate in the discussion."

This new behavior is what the Reputation Institute's Charles Fombrun calls the "extravert" model for dealing with media and other stakeholders. "The old style of refusing to comment, of tightly screening the media and attempting to control all interactions, is the introvert model," he explains. "Some firms can still get away with controlling all of their messages and access to executives. But given the changes in the journalism business, that strategy may no longer be so effective."

The Visible Company

With dozens of news outlets operating around the clock and bloggers who can magnify the implications of just about any report, controlling emerging issues is almost impossible, adds Tom Rosenstiel of the Project for Excellence in Journalism. The only remedy is to adopt what he describes as the "constituency" model, which is identical to Fombrun's extravert approach. "You need to be transparent about just about everything you can legally reveal," Rosenstiel says. "If you're open with the media and have a good message, they'll likely give you the benefit of the doubt when something goes wrong and push comes to shove."

> Savvy journalists don't require head-coaching or executive experience to be effective observers and critics.

This is plainly what has transpired at De Beers, the world's largest diamond company—a firm that long operated with more secrecy than the National Security Agency. Battered by hostile NGOs, news exposés, and even movies about diamond-trade bloodshed, the company changed its business model, how it works with the country of Botswana—the world's largest diamond supplier—and, not least, how it deals with the press. As *Time* recently reported, "De Beers now has a small army of public relations experts keen to produce executives for journalists," and has opened its operations for governments, NGOs, and reporters alike to see up close.

While this epitomizes extraverted behavior, it also appears aligned with Fombrun's assertion that a company can't just be open with the press "without having a number of systematically built programs in place to address a range of risks." The firms that most successfully manage their reputations, he explains, have professionals dedicated to corporate social responsibility, others to environmental issues, and still others to government policy. The best deal well with the media, since journalists are the conduit to all other stakeholders, adversaries, and potential friends.

While oil companies are convenient scapegoats for all sorts of things outside the control of individuals and governments and thus always walk on shaky ground, Chevron today has all of those systems and relationships that Fombrun mentions—as well as a willingness to take the bruises and grudging agreement that comes from openly interacting with journalists.

Sure, most of us learn to write in the second grade. But if there's any takeaway value from what's scribbled above, it's that there's a great difference in quality across the profession, just as there is in law, accounting, management, and college basketball. Moreover, savvy journalists don't require head-coaching or executive experience to be effective observers and critics. In fact, a bit of distance actually enables the writer to better select and interpret what's most important to the reader—even if it means telling the old coach to put a sock in it.

FEI@75

No Longer Just Gray: Business Journalism Takes Off

By Gregory J. Millman

Put a reader of the business news from the 1930s in a time capsule and spirit him to today's world, and his head would truly be spinning. A world of gray type and subdued coverage has evolved into splashes of color everywhere, charts and graphs, talking or even shouting heads on cable TV (think *Mad Money*'s Jim Cramer on CNBC) and dramatically more attention on the world of business and commerce. Even that bastion of literary excellence, *The New Yorker,* has a regular business column.

Like virtually everything else, business journalism has been transformed by technology. Computers replaced lead type; color presses created whole new palettes. Television evolved from a small, gray box to high-definition and plasma. Correspondents, many hired less for their knowledge than their looks, now chatter with executives and analysts on cable TV programs. Even now, the Internet now seems to be the future of much of communication in an attention-deficit world in which depth is often disappearing.

That's not to say, however, that serious and important stories about business aren't being done. They remain a staple of major newspapers like *The Wall Street Journal* and *The New York Times*, as well as the major business magazines like *For*[illegible]*sWeek*. There's a bigger audience for business news than ever before, and a greater capacity to deliver it. Financial executives, especially public company CFOs, are often in the forefront of those supplying information, be it filtered through analysts or investor relations departments.

Indeed, today's business press does have a real impact on business, perhaps greater than ever. Sometimes the influence is overt, as happened earlier this year when press coverage of a professor's research into backdated options spurred intensified regulatory interest and a stock market response. Sometimes, the influence is subtle.

One study, for example, found that press coverage alone can influence auditors' opinions on a company. Presented with information about companies that had defaulted on their loans, auditors were more likely to issue a negative opinion if the press had covered the default. "What was startling about this research is that there was no new information in the press, just a repetition of information available in the audit work papers, yet auditors were more conservative once they saw an article," says Jennifer Joe, assistant professor of Accounting at the Georgia State University's Mack Robinson College of Business.

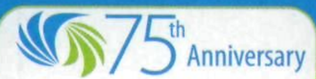
> Technology, public appetite and far more sophistication in delivery have conspired to radically transform the face of business journalism in recent decades. That's been both good and bad, with many in the profession itself bemoaning a focus on entertainment instead of information.

Sometimes the influence shapes how business people see themselves and their businesses, and lasts for years. George Gendron, who edited

the 1980s and '90s, created a publishing phenomenon, a hit with advertisers and readers — not just a magazine, but a

A New Focus on Making Money

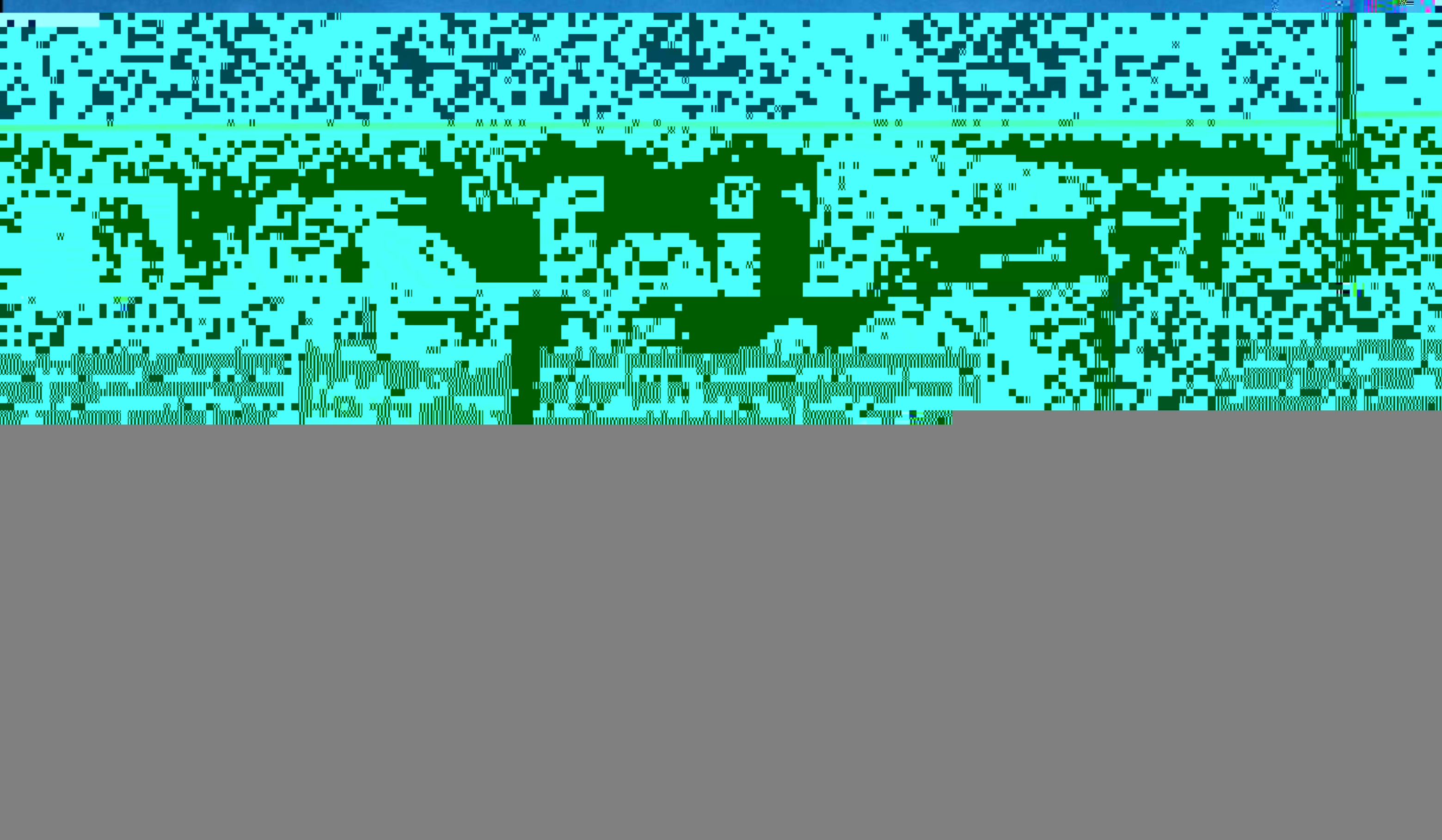
With peace and prosperity came



rounding executives. Founded in 1967 to cover the money management business, the magazine had expanded its scope so broadly that by the mid-'70s, little in finance was beyond it.

"The premium was on story-tel

How *Financial Executive* Viewed the Communications Effort



Post-Crisis Britain: What Is to Be Done?

PROVOCATIONS AND PRESCRIPTIONS FOR THE BRITISH ECONOMY

Address by LIONEL BARBER, Editor, *The Financial Times*

Delivered at the British Venture Capital Association Dinner, London, England, March 1, 2010

Thank you, Simon, for that kind introduction. Your Royal Highness, my Lords, Ladies and Gentlemen, it is an honour to address such a distinguished audience. Journalists are marginally more popular these days than bankers and MPs, but I come before you tonight as a man of print, an endangered species. But for the record, this particular journalist has no intention of joining the dinosaurs down the road at the Natural History Museum, at least not just yet.

Tonight, I would like to say a few words about the vital role that the private equity and venture capital industries play in wealth creation in this country. But please forgive me if my remarks are broader in scope. I want to talk not only about the financial services sector but overall prospects for the British economy. It may be a cliché but it is certainly no exaggeration that our country stands at a crossroads.

By using the word "crossroads", I am not floating a sly reference to the general election just weeks away. I do not possess any inside information on the precise date for polling day, nor can I say much about the merits of the Labour or Conservative parties. Indeed, anything I say on that count will be open to misinterpretation, a classic cast of the media being quoted out of context, as it were. As to which party the Financial Times intends to endorse, well that is a collective decision to be taken at a future date. Really.

The reason I believe we are at a crossroads lies in the consequences of the economic crisis for Britain, especially in the light of the shifting balance of power in the world from east to west. The wider challenge is how to turn the severe recession into an opportunity for the British economy, to use it as political cover to make some hard but necessary choices about where should seek comparative advantage in a world shaped by relentless competition.

The global financial crisis has claimed many victims but the biggest casualty was the notion that Britain—and here of course I mean the City of London—enjoyed an innate superiority over its counterparts on the European continent. Britain was deemed to be superior because its economy was dynamic, flexible and open. Light-touch London was the global hub attracting the smartest talent, the best French chefs and the richest Russian oligarchs. In Mervyn King's phrase, Britain enjoyed the "Nice" decade, a period of non-inflationary consistent expansion of the economy.

That at least was the theory. In practice, the UK during the Blair-Brown boom was more like a large hedge fund, benefiting from a period of low interest rates and cheap credit, thanks in part to Mr Greenspan in Washington and the comrades in Beijing where low-cost labour exported deflation to the rest of the world. Despite the accumulation of personal wealth, fuelled in part by a sharp rise in house prices, there was rather less to Cool Britannia than met the eye.

Today, the financial services sector stands massively if temporarily discredited. The cost of the bail-out of Britain's banking sector is close to £90 billion. The UK government has back-pedalled vigorously from its earlier advocacy of "light touch regulation". There is considerable uncertainty about our tripartite regulatory framework involving the Treasury, Bank of England and the FSA, one of the centrepieces of Gordon Brown's reforms as Chancellor.

More broadly, the crisis has marked the collapse of an intellectual edifice which assumed that economic actors behaved rationally and that markets would be both rational and therefore efficient. We now know that markets can be both irrational and massively inefficient. So we find ourselves living in a very different economy: substantial, if temporary extension of state intervention; and borrowing on a scale normally associated with war-time.

The dramatic shift in our circumstances has yet to be absorbed by the political class. And it comes at a time when the balance of economic power is moving markedly from west to east. I have watched this shift of power from west to east from different vantage points, first as a foreign correspondent and latterly as editor. I have come to the view that the increasingly relative importance of Asia and other emerging markets is real and sustainable.

This is not to write off the US which remains the number one economic, military and political power, whatever the current debate about ungovernable America or the precipitate decline in President Obama's standing. Just two days in Washington last week confirmed for me the erosion of his authority. It is merely to underline the emergence of a multipolar world in which China, India, Brazil, the oil-rich Gulf states will play an increasingly influential role. Their influence will be largely but not exclusively at the expense of the developed economies, notably a ponderous European Union.

China deserves a few words. In the last 12 months or so, the Chinese have become increasingly assertive. Some say this assertiveness reflects the communist party's concerns about economic growth which is tied inextricably to the legitimacy of the regime. Others detect a sense in Beijing that, just as Theodore Roosevelt spoke just over a century ago of America's Manifest Destiny, China's moment has come.

What is clear is that the end of the 20th century coincided with the end of the story of China as a pure foreign investment play. The new century marks China's impact as

an international economic actor on the rest of the world. This impact ranges from the contest for commodities in resource-rich Africa and Latin America, to the rise of multinational Chinese companies looking for foreign acquisitions, and the establishment of a maritime navy with the ambition to the secure control of sea-lanes in the Pacific and Indian oceans.

China is now the world's largest exporter, supplanting Germany; China is the world's largest importer of raw materials; the Chinese consume more cars than the Americans. On IMF data, the share of China and India in world GDP at purchasing power parity will rise from 7 per cent to 18 per cent between 1992 and 2010. The US share in the latter year is 19.6 per cent.

In London, we are slowly waking up to the new powershift. The Pru's bid to acquire the Asian assets of AIG, the fallen American insurance behemoth, is testimony to the untapped potential of the Asian consumer. HSBC's decision to relocate its chief executive Michael Geoghegan to Hong Kong is another hint of things to come. So is the decision of legendary investor Anthony Bolton to step out of retirement and move to Hong Kong to set up funds specialising in Chinese equities.

So what do these trends mean for the British economy? In my view, they make it imperative that we identify those sectors and industries where we can make a difference in the global market place. Once we have identified these "anchors", both private equity and venture capital have important roles to play as growth engines.

What might those anchors be? Here are five suggestions, none of which is particularly original but which nonetheless constitutes areas where the British can aspire to excellence: financial services, pharmaceuticals, aerospace, the low carbon economy, and higher education.

Incidentally, I have deliberately left out the creative industries, on the grounds that I am, so to speak, parti pris. In our own modest way, the *FT* has sought to achieve a leadership position, building a brand with the authority and sweep to challenge other global media organisations, albeit in a niche at the top of the end of the market for business and financial information and analysis.

Now talk of "anchors" may prompt accusations of "Bennery", picking winners in a 1970s-style industrial policy. But it is surely time to move beyond such caricatures. Having worked as a journalist for 10 years in the US, I have witnessed first-hand how the US government exerts a profound influence over industry. Look at government procurement and its impact on the defence and aerospace industry. Not for nothing did Dwight Eisenhower invoke the phrase of the military-industrial complex. Look at the role of the Small Business Administration. Look at sundry legislation such as the Jones Act which protects merchant shipping. I could go on.

Other governments in emerging market countries have equally understood how they can shape their economic base, not just through procurement but also through tax policy. The danger for the UK is that we continue to operate a hands-off policy regarding foreign bids and takeovers while at the same time adopting fiscal measures which either discourage inward investment or damage prospects for start-ups or mature companies which operate in the UK. Sir John Rose of Rolls-Royce, one of the few world class manufacturers in this country, has spoken eloquently about this risk. Many other leading businessmen see things the same way. There is no point in putting up a "For Sale" sign in Britain, if there is little or no prospect of replacing those companies with our own.

Let me now turn to the financial services industry. Now as one of my *FT* colleagues remarked impishly the other day: it may seem strange for Britain to seek comparative advantage in the world's most irresponsible industry. But the serious point is that the financial services sector is still enormously important to the economy. It employs vastly more people outside London than inside the City. A host of other services industries such as lawyers and accountants rely on the financial services eco-system for their well-being.

Equally, it seems fairly obvious that we allowed the financial services sector to become too large relatively to the rest of the economy. So while banking and financial services accounted for 27 per cent of all corporate tax take for government at the height of the boom in 2007, the cost of the ensuing bust to the taxpayer is now close to £100bn. Although some of that money will eventually be recouped as the government disposes of its equity stakes in Lloyds and Royal Bank of Scotland, it is still a terrible price to pay—and it accounts for the political backlash against bankers and the fat target of bonuses.

However, there is a real danger of the backlash going too far. The *FT* supported, reluctantly, the special tax on bonuses on the grounds that banks' profits were benefiting from an implicit government guarantee and extraordinarily favourable trading conditions based on record low interest rates. But this last levy must be a one-off. Governments will be tempted to take further measures, if only because of the dire state of public finances. They do so at their peril. More unpredictability is likely to lead to a slow exodus from the City.

London does enjoy unique advantages because of its geographical location in the centre of the world's time zone, the supremacy of the English language and the rule of law. But other financial centres—New York, Dubai, Singapore and Shanghai, let alone Paris and Frankfurt—are competing for similar business. This government—and the next—should avoid taking any unilateral measures which put Britain at a disadvantage.

So where does that put private equity? First, the industry should be congratulated for improving their communication to the general public. Now that wasn't too difficult, was it Simon? Let's be clear: private equity has undoubtedly served as an engine of growth. The industry's reputation rests on the claim to be good corporate citizens enjoying

a superior operating performance to publicly listed companies. But if I may engage in provocation, the question remains, how far are you prepared to go?

If deals, especially at the big cap end, involve piling companies high with debt which weakens them in good times, inhibits their ability to invest in growth, drains the public purse of corporation tax by substituting debt for equity, then that claim is in jeopardy—(especially if the exit involves a sale through Swiss holding companies without payment of tax).

The second, related challenge is to demonstrate that private equity's claim to superiority rests on operational performance rather than financial engineering based on favourable debt and capital markets. Given the dramatic fall in global fund-raising in 2009 compared to 2008, and the overall decline in deal value (despite signs of an up-tick in the fourth quarter), the industry still has something to prove. The third challenge is succession: we have seen one or two tensions as founding partners have either exited or been "exited". The fourth challenge will be to manage relations with stakeholders ranging from trade unions, sovereign wealth funds and pension fund trustees in a post-crisis world in which the financial services sector faces greater scrutiny. And the fifth and final challenge will be to deal with a tougher regulatory framework.

In this context, the EU's Alternative Investment Directive is profoundly misguided, if not vindictive. It targets private equity and hedge funds which, despite dire predictions on the European continent, were not responsible for the global financial crisis. The causes, as any reader of the *FT* will know, were a toxic combination of leverage, lax regulation, conflicted ratings agencies, and global imbalances, notably between excess spending in the US and excess savings in China and other Asian countries. While this directive is still subject to modification, it is still onerous. In the words of one private equity boss: a headache rather than handcuffs.

Let me now turn to the venture capital industry which, if properly harnessed could and should play a vital role in the revival of the British economy. No doubt there is much to be done in terms of tax breaks to encourage investors to back young and growing companies. More generous treatment for research and development, say; or raising Enterprise Investment Scheme allowances to a 50 per cent tax write off with the upper limit raised to £1m per annum.

But to engage (again) in a bit of provocation: why is it that Britain has produced few start-ups which have achieved global scale? Where are Britain's Googles, Yahoos and Twitters. OK, we had Bebo—but they just sold out, admittedly at a handsome price.

The obvious answer is that the US market alone offers scale. But we should also look at other factors, starting with our universities, the hubs of innovation. By my count, only two of the top 20 universities in the world are British, America is home to 17 of the others and California alone has three of the top ten. Our top universities have long been wary of incubating commercial innovation or promoting world class business schools. And while there are signs of attitudes changing, there is a genuine need to forge closer relationships between business and our universities to stimulate the development of intellectual property, properly and efficiently enforced through patent law.

In this respect, I look forward to the results of the Browne review of higher education funding which should help to strengthen the independence of universities. I also welcome the pre-Budget's adoption of a "patent box" which ringfences incomes derived from patents and gives them more favourable tax treatment. The arrangement has already been introduced in Belgium, the Netherlands and Switzerland and could be an important stimulus for invest-

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The Business of Journalism: A View from the Frontline

"A WHOLE WORLD OUT THERE TO BE EXPLORED"

Address by LIONEL BARBER, Editor, *Financial Times*

Delivered as the Hugh Cudlipp Lecture, London College of Communication, London, England, Jan. 31, 2011

Thank you Lady Cudlipp, trustees, and students of the London College of Communication for inviting me here tonight….

I come before you as a man of print, not the spoken word. A broadsheet editor determined to follow the trusted maxim: all power tends to corrupt, power point corrupts absolutely.

I come from a family of journalists. So does my younger brother, Tony. Our father left school at 15 and started as a copy boy on the Leeds Weekly Citizen before graduating to the Cadburys' *News Chronicle*, the *Sunday Times* and the BBC World Service. Frank Barber was a blunt, self-educated Yorkshire man, a dedicated sub-editor who never met a paragraph he couldn't cut. He regarded the news business not as a profession but as a vocation. My own route to journalism was more circumspect. At Oxford, a young man called Mark Thompson turned down an article I proposed for Isis magazine. Now I know why people complain about editorial bias at the BBC. After many—too many—job rejections, I won a place on the Thomson regional newspapers training scheme in Newcastle and several shorthand tests later joined the *Scotsman* in Edinburgh.

Back in 1979, the *Scotsman* sold 91,000 copies. It carried a page of foreign news. 20 North Bridge, an imposing Victorian building overlooking Waverly station, housed printing presses which thundered through the night. It was also home to many fine journalists: reporters and editors such as Neal Ascherson, Chris Baur, Harry Reid, Jim Naughtie, and later Andrew Marr.

Today, the *Scotsman* is a tabloid; it sells 45,000 copies and that page of dedicated foreign news has disappeared. North Bridge is now a five star boutique hotel with a gym, poetic justice for generations of journalists raised on cigarettes and whisky.

As a cub reporter, I devoured books about journalism. One tome sticks in my mind because it sat for many years on my father's many bookshelves at home in London. Hugh Cudlipp's memoir Walking on the Water captured for me the thrill of the news business. The prose is economic, funny and splendidly irreverent. One paragraph toward the end of the book is particularly notable and quotable.

"Knowing what is going on is the lure of journalism. Explaining to vast audiences what is going on is the art. Influencing, or trying to influence, what is going on is the self-imposed mission."

Cudlipp's dictum just about sums up my own credo, though I might quarrel with the last point about media influence, especially in the light of the latest, pressing questions about journalistic ethics in this country. I will return to that subject later.

For the moment, I want to talk about the business of journalism today, specifically the role of the mainstream

ing fast.

Since 2005, for example, the number of paid-for Indian daily newspaper titles has surged by more than per cent to 2,700, according to the World Association of Newspapers. The circulation of Hindi papers rose from less than 8m in the early 1990s to more than 25m last year. Meanwhile, the total circulation of Brazilian newspapers has expanded by 1m over the past decade to 8.2m, with steamy tabloids among the biggest beneficiaries.

In hindsight, Watergate was a curse as well as a blessing for American journalism. The courageous reporting of the Post and the *New York Times*—coupled with the favourable Supreme Court rulings on publication of the Pentagon Papers—were landmarks for the interpretation of First Amendment rights and the freedom of the press. But

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Baghdad bureaus, as we at the *FT* among other news organisations know, are very expensive. But so are Beijing, and Washington, and Moscow, and Berlin, and Paris, and Johannesburg. For the *FT*, which has more than 100 staff foreign correspondents, these bureaus are essential. They are part of the DNA of our news organisation.

For others, they were once a vital source of news. Now, because of financial pressures and relentless cost cutting, they can be no longer for many sections of the mainstream media. So the foreign bureaus go—and a window on the world slams shut.

In the summer of 2009, I modestly predicted that most major news organisations would be charging for content within 12 months. Charging, I argued, would not only plug the revenue gap; it would also help to re-establish value in their news product.

This past year, pay walls have gone up around content that was previously free. News International has been a notable convert. This year, pay walls will appear around the content of the *New York Times* and, as the *FT* has reported, the *Daily Telegraph* too.

The hope in this is that people will wish to continue to read the content that these organisations provide—and will subscribe. The risk is that they will simply go elsewhere—to a free news site, like the BBC—or indeed, any major broadcaster.

For the BBC and others, a free website is an obvious and relatively cheap addendum to their main purpose of streaming news and entertainment on screen to a mass audience.

In this respect, I was pleased to see that the BBC has at last begun to recognise the economic threat that BBC online poses to newspapers, particularly those in the regions. The sharp cuts in the BBC's online budget go some, if not all the way, towards redressing the balance. Further steps in this direction, including relaxing restrictions on cross media ownership in the provinces outside London, should be considered by the government.

For those publications adopting pay walls, the strategy represents a big leap into uncharted territory. Those which remain free or substantially free, have another kind of hope: that the very large audiences they are able to garner through freely available content will boost sales—or at least slow the decline of the print edition. The other gamble for the free content camp is that they can gather sufficient advertising to provide the editorial budget which they need to sustain a major newspaper. New offerings such as online dating services may also boost the bottom line. Now it is true that digital revenues are increasing rapidly, albeit from a relatively low base. The question is whether the migration will occur in sufficient volume and at sufficient pace to compensate for the decline in print.

For all these extenuating factors, the broader criticism is that the British newspaper industry has mismanaged its own decline.

Yes, British broadsheets and tabloids have displayed eye-catching innovation compared to their stodgy US rivals. But they have essentially applied 20th century solutions such as new design, formats and aggressive marketing—to a 21st century problem, primarily fragmented audiences, new advertising platforms, and massive digital storage capacity through so-called cloud computing.

In the age of the personal computer, the Mac or the iPad, people are more likely to identify themselves as enabled consumers rather than as passive readers of a daily newspaper. So what is the way forward for the news business and how has the *Financial Times* managed this perilous transition from print to digital?

Ever since its foundation in 1888, the *FT*, with its roots in the City of London, has been a specialist newspaper not a general newspaper. Sir Gordon Newton, our greatest editor, who sat in the chair from 1949 to 1972, once defined the *FT*'s mission as reaching those people who influence or seek to influence decisions in business, finance and public affairs around the world. This is indeed the essence of *FT* journalism.

As our coverage of the global financial crisis shows, we connect the dots, between the sheikhs in Dubai, to the oligarchs in Russia, to the central banks in Beijing, Frankfurt, London and Washington.

Now, we do not always hit the ball out of the park. Like many other news organisations, we were, with two notable exceptions, too slow to highlight the risks ahead of the bursting of the credit bubble. Commentators such as Martin Wolf and Gillian Tett correctly identified the dangers in global financial imbalances and exotic debt instruments such as credit default swaps. But we did not always give them quite the front or full page exposure they deserved.

Overall, the challenge for all news organisations is to exploit the power of the brand across all platforms, from print to digital. The *FT's* strategy can be summed up in five points.

First, we doubled the price of the newspaper on the retail stand in Britain and raised cover prices elsewhere around the world. The price hike had little impact on sales, but generated substantial extra revenue. More important, it sent a powerful signal to the market and to our own journalists that the *FT* was a premium product.

Second, we rapidly developed our subscription business, both digitally on ft.com and in newspaper form. That way we reduced our dependence on the casual purchaser in favour of the loyal subscriber. Coincidentally, we shifted the terms of debate here in the UK away from the febrile confines of the monthly ABC circulation figures to a broader and more meaningful definition of audience, based on both print and digital consumers.

Third, we swung firmly behind the principle of charging for content. At the height of the dotcom bubble, we havered between charging for business news while offering general news for free. In practice, the distinction, at least for *FT* readers, was meaningless. So we came up with an ingenious compromise.

From 2007, we started charging for all content, albeit

based on a meter model. Users would be given a limited number of free articles to entice them into first registering and later signing up for subscription.

Four years on, the meter model has proved to be an industry pioneer and an unequivocal success. FT.com now has more than 3.2m registered users and more than 200,000 paid subscribers. Other publications, including the *New York Times*, are now adopting or about to adopt similar meter models.

Fourth, we abandoned or revised arrangements which allowed other news providers or aggregators to sell our content to third parties in return for a fee. In future, we determined, we would sell direct to our customers. And we would aggressively pursue any party seeking through cookies or sharing of password to gain access to our content for free. Yes, believe it or not, some people do still think there is free lunch with the *FT*.

Fifth and finally, we made significant changes in the newsroom which complemented our commercial strategy.

Back in 1999, the *FT* pioneered the concept of the integrated newsroom. We put all web journalists on the same contracts as print colleagues. And we required all journalists to work both for the print and digital channels. More than a decade later, we have a fully flexible and integrated news operation in which reporters and editors work seamlessly in print and online.

These changes have put us in the best possible position to develop new niches, with more depth and focus to attract new audiences such as *FT* Alphaville, our award-winning financial blog or *FT* Tilt, our new emerging markets service, or our prize-winning iPad application which has brought in extra revenue and subscriptions. And, incidentally, I believe the tablet is the most exciting technological development in recent years, a game-changer because it has all the feel of a newspaper and the advantages of being a dynamic interactive device.

Let me be very clear: The *FT* approach does not necessarily lend itself to being adopted by others. We have a distinct advantage because we are both a high-end niche product but with weight, global reach, and tradition.

We live in a time of great experimentation. There are no universal media models, let alone silver-tipped bullets. Each news organisation must determine how to distinguish itself in an increasingly fragmented market, where the consumer is far more discerning and powerful than ever before.

Technology cuts both ways. It allows third parties and journalists to slice and dice content to better fit the demands of the consumer. Technology allows the use of content to be measured according to traffic generated. This in turn means journalistic supply and, crucially, demand can be measured in real time.

In theory, these advances threaten to undermine the traditional role of journalist as gatekeeper and arbiter of what constitutes news. In practice, the pass has already been sold. The question is what are the new terms of engagement, the new balance of power between the mainstream journalist and other non-traditional aggregators of news, analysis and commentary?

Now there may be some in the audience who find it surprising for a newspaper editor to dwell so long on the business side of the news business. But in my judgement newspaper editors need to be actively involved in strategic decisions affecting the business. Many on the commercial side would appear to agree.

In the past decade or more, many journalists with a background in business journalism have gone on to be national newspaper editors. Peter Stothard and Patience Wheatcroft, my old colleagues from the Sunday Times Business News section, as well as James Harding, Will Lewis and Robert Thomson from the Financial Times.

I am tempted to suggest that the *FT* should henceforth be renamed the GE School of Journalism given the number of first-rate former *FT* journalists now occupying the commanding heights of British journalism.

Of course, there will always be thick red lines between editorial and commercial. We at the *FT* are more than mindful of anything which could compromise the integrity of our journalism or our reputation, our most valuable asset.

The case for close co-operation remains unanswerable. In these revolutionary times, I am tempted to quote Benjamin Franklin on the signing of the Declaration of Independence. "We must all hang together or assuredly we will hang separately."

Let me now turn to more current sources of controversy, notably the WikiLeaks phenomenon and the phone-hacking scandal. While each is very different and each raises important questions for public policy, there is a single common thread: the transformational power of technology which is rendering media laws and practice obsolete.

First, a few words on the WikiLeaks affair. The two industrial scale data-dumps included vivid, if partial US military dispatches from the front-line in Afghanistan and Iraq followed by 250,000 classfied diplomatic cables from US embassies around the world. Set alongside each other, they look like the scoops of the century. But as both Alan Rusbridger, editor of the Guardian and Bill Keller, editor of the *New York Times*, have recounted: managing the story and Mr Assange was far from straightforward.

Keller describes Assange as a character out of a Stieg Larsson novel who was "elusive, manipulative, volatile and ultimately openly hostile to the *New York Times* and Guardian." That will not surprise too many journalists accustomed to dealing with tricky sources, but in this case, other equally challenging ethical, legal and practical problems presented themselves.

These included how to deal with a US government committed to protecting classified information; how to conduct a cross-border investigation encompassing other media organisations; and how to disentangle the newsworthy and compelling from tens of thousands of computer-stored

data. In this respect, the Daily Telegraph's handling of its Westminster expenses scoop, while still a formidable logistical challenge, tends to pale by comparison.

Both Keller and Rusbridger have done a public service by revealing the decision-making behind the WikiLeaks story. Demystifying the editorial process may offend the traditionalists, but at a time when all established institutions face calls for greater openness and transparency this is surely the right path forward.

Keller's observation that Assange was primarily a source is highly pertinent. That plain fact should tamp down the fevered debate over whether WikiLeaks spells either the end of diplomacy or a new age of journalism. Like Keller, I believe it does neither.

Cablegate caused enormous, if temporary embarrassment to the US government. Thanks to careful redaction on the part of the news organisations involved, there was little discernible damage to national security. (That may not have been the case with the earlier data where unredacted passages may have betrayed the identity of Afghan or Iraqi nationals assisting the American military occupation).

So while official reprisals may still follow, I am inclined to side with my *FT* colleague Gideon Rachman who wrote, half tongue in cheek, that the Obama administration should pin a medal on Mr Assange. By and large, the cables

Indeed it took a foreign newspaper—the *New York Times*—to break fresh ground after an investigation lasting many months. For all that period and more, a conspiracy of silence ruled Fleet Street.

As for News International itself, the management failed to follow the advice its newspapers would have given business or any other public figure in similar circumstances: own up rather than cover up, come clean rather than surreptitiously paying off aggrieved celebrities such as the publicist Max Clifford.

The suspicion must remain that News Corporation assumed that it enjoyed enough power and influence in Britain to make the phone hacking controversy go away.

Now, thanks to the overwhelming opposition of its news industry rivals to its bid for BSkyB, that influence is under threat as never before.

News Corporation can argue, with some justification, that opposition to its BSkyB bid is motivated by base commercial interests rather than a high-minded concern over media plurality.

Yet the concentration of broadcast and print power which would result from a fully combined BSkyB and News International's titles is troublesome, especially in the light of still unresolved questions about the extent of phone hacking at the News of the World. The bid deserves proper scrutiny by the authorities. Promises about editorial independence for Sky should be judged in the light of repeated assurances that the phone hacking was the work of a lone actor at the News of the World.

In the final resort, failure to clean house at all news organisations would leave the mainstream media in Britain at risk of retribution in the form of statutory regulation. Many MPs are itching to retaliate for the humiliation of the expenses scandal, but statutory regulation would be a grave step in the wrong direction. Press freedom is woven into the fabric of our nation. We do not want to go down the same road as countries such as Argentina, Hungary and South Africa which have adopted or are about to adopt new laws curbing press freedom. Democracy, it should be remembered, is not just about holding elections.

There is a case for rebalancing the right to privacy and the protections offered by Britain's overly onerous libel laws which are weighted in favour of the well-heeled plaintiff. But Westminster should also tread carefully with regard to privacy, lest the rich and famous, on and off the football field, become untouchable.

More interesting, perhaps, would be to consider whether it is feasible to introduce curbs on newspaper bribery of employees or other institutions and organisations. This may not be unreasonable given the strictures on corporate behaviour laid down in the new Bribery Act, though I see tonight that the government is delaying enactment after lobbying by business.

It would be infinitely more preferable, of course, for the profession to conduct a rigorous collective self-examination. Journalism is not perfect, nor was it ever meant to be. But we have allowed our standards to lapse. Let us hope we have not left it too late.

Ladies and Gentlemen, whatever its current difficulties, the mainstream media in Britain has much to be proud off.

Despite its preponderance of power in this country, the BBC remains a world-class brand. Its journalism is rightly ranked among the best.

Rupert Murdoch remains one of the leading innovators in the news business. His drive to establish a new paid-for culture in the UK digital business deserves applause.

And while Britain's popular press may be gossipy, raucous and sensationalist, it reflects at its best, the national mood and the aspirations of the majority of its readers, as Paul Dacre, one of Britain's most successful editors (and most influential moral arbiters) noted in an earlier Cudlipp lecture.

Finally, as I mentioned at the beginning of this lecture, media companies across the emerging world are either being formed or are growing rapidly.

British media companies could be exporting their brands, insights, talent and technology, just like the advertising business before them. As the *FT* discovered more than a century ago, there is a whole world out there to be explored.

That's the new frontier in the business of journalism. Let's go for it! ◆

The Future

The Prognosis

"Financial analysis is an in-depth business. Clearly, the number of new financial publications from newsletters to *Investors Digest* indicates that the print media is still very viable in the financial field. There will always be a place for the print side; there has been little to indicate that the computer or television or other types of electronic communication have had much of an effect on who reads the *Wall Street Journal* or the business pages of the *New York Times*.

"But within the morass of printed matter, those who can interpret the information for the consumers will excel in the years to come. One of the features of electronic news that has been highly touted is the ability that consumers enjoy through such outlets as the Internet to sort out pertinent news without being bothered with articles that do not fit a specified area of interest. The problem with such a feature is that consumers invariably find a great many things to be of interest when they have a full choice from the printed page that they most likely would not have listed if they were trying to screen their intake. Just as television did not replace radio (although countless prognosticators claimed it would) it is unlikely that the future of business information will be confined to any one improved technology."

— L. W. Seidman

formation will bring with it global markets and global interaction and dependency, it could at some point result in a blown fuse with disastrous consequences. One has to wonder how history would have been altered if Hitler's image had been beamed throughout the globe during each of his addresses.

There certainly is potential for instability. And there is very little that governments can do about it. This technology is in effect going to outmode governments because they are not going to be able to control either the systems or the information. As a former bank regulator, I can attest that the ability to try to control the financial system with the kind of real-time global interdependency that is coming along is a frightening proposition.

The efficiency of information-exchange is going to make markets work much better, it is going to make millions of people more able to participate and it generally is going to be part of raising our standard of living, our productivity and our enjoyment of life. So is it a good thing? Yes. Does it contain potential dangers? Clearly it does.

Among the many good things: It will provide unprecedented opportunities for new businesses to get started. It is not a field that will be dominated by big companies. The technological systems may be dominated, but *The International Economys* and the *Bank Directors* and other niche-type publications will continue to succeed. Others will fall by the wayside: It is already apparent that the giant conglomerates of the entertainment field, Disney and Time-Warner, may be more skillful at conducting mergers than they are at providing people with what they want in terms of new and interesting content.

Much of the technology will serve as pipelines into which many more businesses will insert relevant information.

The battle for supremacy in financial journalism as the technology revolution continues will primarily center around two precepts: Using technology to deliver financial news even more rapidly. And interpreting the news that consumers receive.

More information exists in more forms now then at any time in history. Those who are going to succeed in the coming years in the field of financial journalism will be those news outlets that enable the user to quickly sort through the reams of non-essential information to reach material vital to his or her concerns.

The field of financial journalism is unlikely to be radically altered in the near future. Consider the last 20 years of financial journalism. What has changed? Chiefly, the advent of the video age. As I write these words, a television nearby is tuned to CNBC, a cable television station devoted entirely to financial news, of which I am the chief commentator. Twenty years ago, printers spitting out printed copy enjoyed the seats of prominence that televisions now do in businesses across the country.

The second change has obviously been the multiple sources of information provided by the advances in satellite and cable

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systems. For example, bond traders are now able to plug directly into the bond market, including any tangential information that may prove necessary, such as analysis.

But not much else has changed in the field of financial journalism, and this is due to one irrefutable fact: Humans are limited to at most two ears and two eyes. There is only so much information that can be processed at one time. It is the dimension of understanding and judgment as opposed to information that is going to become more important because there is going to be such an overload of information. It's like the Internet is today: It is wonderful, except there is too much material on it and everyone is trying to determine exactly how it operates. The wave of the future of this information revolution is thus going to involve how to separate what consumers need and can use from the glut of useless information.

When you arrive in your office in the beginning of the 21st century, therefore, the *Wall Street Journal* and the *New York Times* business pages will still await you. While a few new black boxes may beam to you various cable financial news channels, and you may have had at your bedside an information system designed to handle transactions that demand instant action, things by and large will not appear much different than they do today.

The rapid transmission of information will continue to be one of the principal means that providers of financial journalism will have of separating themselves from the pack and garnering market share. There has been a need for accurate information delivered rapidly ever since the Rothschilds used pigeons to send updates to headquarters concerning the wars in Europe. The information that consumers need immediately will be monopolized by those who can provide it swiftly. Weekly news magazines can obviously no longer provide the type of information that they once did. They have instead been forced by such outlets as Cable News Network (CNN) and other 24-hour news stations to provide overarching analysis rather than breaking news coverage.

Likewise, in the world of financial information, such outlets as CNBC and Bloomberg Business News have already caused the demise of some of the old methods of dispersing immediate financial information. It is a good bet that some of the non-niche print magazines will be eliminated, as will some of the old Reuters-type providers of mass financial information. Almost any news outlet that does not evolve into a niche publication providing essential information will become obsolete. Consumers simply do not have enough time to read information that they have already viewed on television.

So the battle for speed will clearly be a technological one. But that's only a part of the kind of financial information that is important.

Financial analysis is an in-depth business. Clearly, the number of new financial publications from newsletters to *Investors Digest* indicates that the print media is still very viable in the financial field. There will always be a place for the print side; there has been little to indicate that the computer or television or other types of electronic communication have had much of an effect on who reads the business pages of the *New York Times*.

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People will need to be taught just as they are now being taught: How do you use the Internet? How do you sort out what you really need while still being exposed to information that you need but don't know you need? Such questions translate into an ever-increasing reliance upon other people's judgment or other systems of judgment. Consider banking today: More and more banks are forced to consider credit scoring or credit checks and outso[illegible]

mission can cause huge movements in the market. Even more so than today, most users will require at least two sources before taking any precipitous action. Likewise, the possibilities of fraud and other types of nefarious activities will increase tremendously. Safe and secure information systems are going to be one of the great challenges.

The technological revolution is the great leveler in terms of access to financial information. The information will be so cheap, there will be so much of it, and there will be so many ways to get it, it is likely to have — and is already having — the result of achieving global parity. The most backward of countries can perform the most highly technological tasks simply because they are exposed to some microchips. But the factor that is not level is the educational background of the citizens around the world. It will not be information or systems that will make it more difficult for underdeveloped and poorer countries to succeed in the information revolution, it will be the ability to use that information and those systems. The financial information will be there, if they know how to access it.

The kind of financial information available today is also a great leveler with respect to wealth. When the Rothschilds had the pigeons, nobody else had pigeons. But everybody is going to have the technology that is now available. The question is going to be: Who knows how to use it?

Global consumers of financial information are simply go-

When you arrive in your office in the beginning of the 21st century, the Wall Street Journal *and the* New York Times *business pages will still await you.*

Adrianna Kezar and Hannah Yang argue that financial literacy is both an important life skill and a critical intellectual competency.

By Adrianna Kezar and Hannah Yang

THE IMPORTANCE OF FINANCIAL LITERACY

JAMES was a university sophomore who thought he had his finances in order. But the credit card he had opened the preceding year was maxed out and he could only pay the minimum balance, if that, each month. He had already spent the money his parents gave him for the month, and the month had just begun. These stresses began to weigh on him every day; they affected his mood, his energy, his motivation, and his studies. He started to sleep in and miss his classes. Soon, he was too far behind in his classes to pass them, and worse yet, he didn't care. James ended up withdrawing from his classes, losing his financial aid, and going deeper into debt.

What is educators' responsibility for students like James? In this article, we argue that campus communities must play a more active role in developing financial literacy than they currently do—and not just by providing counseling in moments of emergency. We argue that financial literacy, as a life skill, as a requisite to citizenship, and as a critical intellectual competency, is an essential component of a college degree.

The President's Advisory Council on Financial Literacy advocates that postsecondary students learn about finances as basic knowledge for citizenship. The council defines *financial education* as "the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being" (p. 35). Financial literacy, the council argues, should be part of a complete liberal arts education. By engaging in financial literacy activities, students hone critical thinking, judgment, and other skills of a responsible citizen. These activities reach beyond acquisition of basic skills, such as balancing a checkbook, to involve complex understandings of credit and debt, philosophical decisions about appropriate risk, and judgment in making consumer choices.

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During college is typically the time when most students take their first key financial actions, including applying for loans, choosing among financial lenders, understanding interest rates, budgeting for tuition and living expenses, choosing whether to work and how much money to save, and whether to acquire a credit card. In some academic disciplines such as economics and business and some cocurricular experiences such as entrepreneurship clubs, higher education has taken a role in financial literacy. But delivery of this education is uneven and unsystematic. We believe that students like James can benefit from receiving education about personal finances through a first-year seminar, a money management office, or workshops offered through a financial aid office.

While many educators may believe that colleges already address financial literacy or that students learn about these issues at home or in high school, the evidence is overwhelming that most college students are financially illiterate and continue to score low on financial literacy surveys. For example, Haiyang Chen and Ronald Volpe tested 924 students from fourteen college campuses across the nation on financial literacy and only 53 percent answered the questions correctly. The survey explored topics such as saving, borrowing, investing, and insurance. When presented with hypothetical scenarios, the least knowledgeable college students made incorrect decisions. The authors hypothesize that college students who did not do well on this test will most likely make similar mistakes in their daily lives. More recently, Brenda Cude, Frances Lawrence, Angela Lyons, Kaci Metzger, Emily LeJeune, Loren Marks, and Krisanna Machtmes used quantitative and qualitative methods to assess the financial management skills of college students. They confirmed the finding that college students are not managing their finances well and recommended that college campuses address student deficits in this area.

As well as being an intellectual competency, financial literacy can increase the odds that students will stay—and succeed—in college. A 2007 study at Buffalo State College found that college students have an average of $1,000 in credit card debt. A 2006 study commissioned by KeyBank and conducted by Harris Interactive found that 75 percent of first-year college students confessed to making mistakes with their finances. Also, about one-third of responding first-year students said that they were financially unprepared to manage their money at college. According to Angela Lyons in 2004, low-income students are even more at risk to drop out for financial reasons because they have no safety net. And as William Tierney, Zoë Corwin, and Julia Colyar discuss in *Preparation for College,* low-income students typically grow up having less access to financial knowledge than their higher-income peers. Financial education may help some of these students better manage their money, provide them with important financial tools, and help them stay in college.

If one accepts that financial education can be a key component of learning in college and that students who possess practical competence in personal finance are more confident and academically successful, what kind of financial education is available to them? How is it offered, and is it provided to at-risk populations, particularly those from low-income backgrounds?

In the remainder of this article, we explore current financial education practices on college campuses, make recommendations to educators on developing financial education on their own campus, and conclude with a review of best practices in financial education.

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We love feedback. Send letters to executive editor Jean M. Henscheid (aboutcampus@uidaho.edu), and please copy her on notes to authors.

Current Practices in Financial Education

OUR INTEREST in financial education emerged from a three-year study on Individual Development Accounts (IDAs) funded by the Lumina Foundation for Education (http://www.usc.edu/dept/chepa/IDApays/). An IDA is a matched savings account (the match is provided by the federal government and the nonprofit agency; the match rate depends on how much each entity is willing to contribute) that allows low-income individuals to save toward postsecondary education, home ownership, or a first business. In addition to matching savings, the IDA includes a financial literacy component. One research question was whether this kind of education was offered on college campuses. Up to that point, no national or regional survey of financial education in postsecondary institutions had been conducted. In order to get a better idea of the financial education landscape for low-income students, we surveyed one of the main entities serving low-income student populations—TRIO programs. Although TRIO programs at the time of the study were not mandated to offer financial education, some permissible services include assisting students with financial aid applications, providing information concerning financial assistance for college, personal counseling, and connecting students with activities not generally accessible to disadvantaged individuals.

Portions of our research project included surveying TRIO programs to determine whether financial education is offered to low-income students and researching the types of financial education options that are available. Some of the more than 1,400 TRIO programs, which serve 866,000 students, are located in high schools (for example, Upward Bound, Talent Search) in order to encourage and facilitate access to college; other programs (Student Support Services) are located on college campuses in order to retain students and help them achieve success. Additional details about the survey are available at http://www.usc.edu/dept/chepa/IDApays/.

Financial Education in TRIO Programs. Half of all TRIO programs surveyed currently offer some sort of financial education. The financial education is usually offered to first-year students through an optional workshop. TRIO staff members most often use a locally developed curriculum to provide most of the financial education in TRIO programs. They deliver the financial education in an in-person group format, and they address topics such as money management, budgeting, and avoiding debt. Less than half of TRIO programs that offer financial education evaluate student learning and program effectiveness. Of the TRIO programs that do not offer financial education, 86 percent would like to offer it to their students. Some respondents said that they were unsure how to design or deliver such information and that they needed more information on financial education programs.

Also, of the TRIO programs that did not currently offer financial education but would like to, 45 percent said that their institution does not offer financial education and 25 percent responded that they did not know if their postsecondary institution offers financial education. The respondents who said their institution did offer financial education typically identified the financial aid office as the department responsible for such programs. Although some financial aid offices are beginning to incorporate financial literacy education, most address narrow topics (for example, repayment obligations and plans, interest, and terms and conditions of loan packages) as part of entrance and exit counseling offered for federal loan recipients.

Examples of Financial Education for the General Student Population. After finding that effective financial education is not consistently offered to all low-income students, we looked deeper to see whether college campuses were providing financial education to the general student population. We found that some campuses provide an optional personal finance session during freshman orientation or as a seminar included in a University 101 course. Some campuses offer a personal finance course through their business department or have financial aid counselors who are trained to provide financial advice in addition to entrance and exit counseling. For example, the Financial Aid and Scholarship Department at California State University, Northridge (www.csun.edu/finaid/) began its financial literacy efforts four years ago. Through an array of opportunities, students engage in learning through individual counseling, Web pages, and presentations and other campus events. The primary intellectual skill taught to students in this program is making informed decisions about reducing costs and financing their college education without sacrificing

Half of all TRIO programs surveyed currently offer some sort of financial education.

Some campuses provide an optional personal finance session during freshman orientation or as a seminar in a University 101 course.

their academic focus or crippling their financial future. For example, financial aid counselors are invited to make presentations in University 100 (first-year experience courses) classrooms each semester and to students in the Educational Opportunity Program's summer Bridge Program. Quoting the adage "If you live like a professional when you are a student, you will live like a student when you are a professional," counselors encourage students to focus on "needs" while in college and defer "wants" to later in life. Counselors teach students how to budget and explain the benefits of borrowing through low-cost government loans rather than high-cost credit cards. In addition, each spring, a campuswide event known as Matador Dollar Days uses information booths and free lunches to attract some 1,000 students. Booth topics include financial aid, scholarships, debt management, career choices, and loans.

The next step planned by the Financial Aid and Scholarship Department at California State University, Northridge, is full deployment of Financial Literacy 101, a commercial product that, according to the vendor's Web site (http://www.decisionpartners.org/financial_literacy.htm), "combines a robust curriculum tailored to the needs of students with a learning model designed to actually prevent financial problems before they start." A faculty member pilot-tested the product and reported that students embraced it. The tool is now more widely available to other faculty and students.

Other campuses have created departments that offer student money management services separately from the financial aid office. For example, Texas Tech University has taken an active role in improving the financial literacy of its students through Red to Black (www.r2b.ttu.edu), an outreach arm of an academic program in personal financial planning (www.pfp.ttu.edu). The name represents the school's colors and the program goal to help students learn how to get out of the red in their personal finances. The impetus for creation of the program in spring 2001 was anecdotal evidence from faculty and administrators of unacceptably high levels of student debt and other financial problems. Red to Black provides free and confidential financial counseling and education for the Texas Tech community. Services include sessions for individuals or couples and presentations or workshops. Issues that lead students to seek services range from reducing debt to money management. Presentations are provided on topics such as living on a student budget, establishing credit, reducing debt, planning for expenses after college, and examining pre-marital finances. Presentations are delivered in such places as first-year student orientation, academic classes, student organizations, and local school systems. The program also hosts an annual Financial Education Week to promote financial well-being. Select volunteers who are upper-division or graduate students in personal financial planning provide all services. Volunteers have completed core courses and receive extensive training each fall in addition to ongoing training via continuing education. The staff includes a faculty director, two graduate students, a student coordinator, and approximately twenty-five student volunteers.

Recommendations for Enhancing Financial Literacy

THE FINANCIAL LITERACY AND EDUCATION COMMISSION'S game plan for financial literacy calls on postsecondary institutions "to consider ways to raise the financial literacy levels of their students to help them avoid financial hardship due to mismanagement of credit and money" (p.95). We suggest beginning this endeavor by creating a campuswide team that draws on existing resources and on offices that understand financial education. (This effort may entail bringing in outside agencies if inside resources are limited.) The team could include individuals from the following areas: faculty with expertise on finances and financial literacy; programs for new students; residential education; financial aid; on-campus credit union or bank; business or education departments; student support office; and academic advising office. The group could be given the task of examining methods for integrating financial education into the institution's curriculum, cocurriculum, and services. The team could also consider faculty and staff development in regard to financial education and increasing financial education programs for low-income students. Many resources on financial education programs are available online; one important resource to help the team to think systematically is

"Get Financially Fit: A Financial Education Toolkit for College Campuses," available at http://www.newyorkfed.org/regional/Fin%20Ed%20Toolkit%20for%20College%20Campuses.pdf. This tool provides easily accessible information on building a successful financial education program, from choosing an appropriate type of program to marketing the program effectively. It also provides institutions with important financial education topics to include in their program. The tool provides models and best practices of programs to help team members begin their discussion.

In this section, we highlight some considerations for financial education programs in the curriculum, the cocurriculum, student services, and staff and faculty development services.

Curriculum. In its *2008 Annual Report to the President,* the President's Advisory Council on Financial Literacy recommended that the U.S. Department of the Treasury and the U.S. Department of Education work together to require a university or college course in financial literacy. Although integrating financial education into a curriculum may seem daunting, the potential payoff is great because financial education would allow students to apply their learning and change their behaviors early in their financial life. Institutions could start small by offering a financial education element in their first-year experience course and then take on larger tasks like offering financial education as an option in general education requirements or integrating the intellectual competency of financial literacy into existing courses. The University of Wisconsin–Madison and Great Lakes Higher Education Guaranty Corporation developed a three-credit-hour financial education class and pilot-tested it during the spring semester of 2006. According to the programs' assessments, students exhibited a marked and sustained improvement in two cash management behaviors: creating a budget and keeping a spending diary. Budgeting and tracking spending require students to do more long-range thinking and reflection about their activities, which enhances critical thinking and judgment. The curriculum has been made available for use by other educational institutions in various formats (see https://www.mygreatlakes.org/about/content/about/press_release/rs_press_release/061120_gl_uw_financial_education_report.html).

Cocurriculum. Some campuses incorporate financial education in their cocurriculum by including it in first-year student orientation or as a workshop in residence halls, a women's resource center, or student support services. For example, the Office of Student Services at Boston College created Successful Start, a financial literacy program that offers workshops on all aspects of financial management (see http://www.bc.edu/offices/stserv/meta-elements/pdf/brochure.pdf). Most colleges and universities that incorporate financial education in freshman orientation offer it as a stand-alone session. Some institutions have campus faculty or staff with a background in finance facilitate the workshop. Others invite off-campus financial experts from local banks or private companies to speak to students and parents about a financial topic—for example, budgeting for the first year in college.

Services. To incorporate financial education into campus services, an institution might involve the financial aid office, the on-campus credit union or bank, or the academic advising office in offering financial education to students. Financial education can include brochures, online resources, workshops, and expert speakers. For example, Brigham Young University (BYU) created Financial Path to Graduation, an online tool to help students calculate how much they expect to make in the future and, given this information, what debt burden seems safe to assume. While this software is not available to the public, other campuses that are considering creating a similar program can view the BYU model at http://saas.byu.edu/depts/finaid/documents/fp2g.pdf. For more examples of online financial education programs, see the University of Southern California's financial education resources list at http://www.usc.edu/dept/chepa/IDApays/resources/financial_resources.pdf.

Faculty and Staff Development. A campus-wide financial education team can also help develop and deliver training for staff and faculty in order to give them the necessary resources to incorporate financial education into the curriculum, cocurriculum, and services of their institution. Professional development may also involve presentations on the various

Financial education would allow college students to apply their learning and change their behaviors early in their financial life.

financial education endeavors or programs occurring on the campus, on other college campuses, or in the community. For example, the National Endowment for Financial Education's CashCourse (http://www.cashcourse.org/) is a college financial education program that is available to institutions. Training for staff and faculty may help develop broader campus support for financial education. Ongoing conversations about this type of financial learning can translate into higher rates of financial literacy across the campus community and among faculty, staff, and students.

Best Practices in Financial Education

STUDIES of financial education programs have identified three important components in producing positive learning outcomes among students: timing, teaching methods, and program evaluation.

When to Teach Financial Education: Teachable Moments. A teachable moment in financial education occurs when a person is about to make a specific financial decision. For college students, a teachable moment might occur in their first year when they sign up for their first credit card or when they begin to manage their money on their own; in their second year when they make their first major purchase, such as a car; or in their third year when are working and need advice on work-school balance or how to pay taxes. A teachable moment for graduating seniors might occur when they need to understand what the terms of their loan say about paying it off and how to plan for their financial future. When financial education is introduced at these critical times in students' lives, they are better prepared and more motivated to tackle financial issues. We recommend that institutions consider offering financial education in every year of college on the financial topics that are most relevant to students' age and year in school. This type of education reinforces financial education concepts over the four years of a student's college career.

What Methods to Use: Active and Experiential Learning Techniques. Financial education experts recommend diversifying teaching methods by using active, experiential, and problem-based learning techniques. Active and experiential learning uses personal involvement and experiences that engage students directly with the content. When students are allowed to describe their own financial issues as well as review other financial scenarios (problem-based learning), they apply what they have learned and actively construct their own learning about finances. These methods depart from the traditional lecture style of teaching, allowing students to participate in the instruction process, enrich learning by sharing their experiences, and use real-life scenarios as part of problem-oriented instruction. For example, according to Kavous Ardalan's 2006 article, one instructor taught finance by using the *Wall Street Journal* (contemporary topics) in a group assignment (having people share experiences from their day-to-day life in groups). This assignment allowed the students to interact, work in groups, and relate finance terms to real-life examples.

Evaluating Program Effectiveness. Evaluating program effectiveness is especially important because financial education programs have had a mixed history in regard to their impact on increasing knowledge and improving financial choices of participants. In the past, many financial education programs have been criticized for their poor evaluation procedures, including issues with data reliability, research design, measurement, and interpretation of results. Collecting program evaluation data related to student learning, attitudes, and behaviors will allow designers and deliverers of financial education to make data-driven changes as necessary. On many campuses, the office of institutional research, program evaluation, or student learning assessment can provide assistance in evaluating a financial education program.

Recently, the President's Advisory Council on Financial Literacy recommended that the U.S. Department of the Treasury implement an honor roll program among colleges and universities to encourage best practices in financial education. Outside of this formal recognition, educators can learn a great deal by contacting colleagues on other campuses. Institutions that house a successful financial literacy curriculum with positive results from assessment of

Having access to resources for increasing financial literacy can give students motivation and confidence that may spread to their academic and out-of-class pursuits.

student learning outcomes and program evaluation are encouraged to share them with others by publishing or presenting at professional conferences or association meetings.

We believe that having access to resources for increasing financial literacy can give students motivation and confidence that may spread to their academic and out-of-class pursuits. In contrast to the opening vignette involving our fictitious student James, we invite you to imagine Jane: a junior who recently visited her university's new student money management services department to enroll in a workshop on how to budget. She decided to use the new services because she continually ran short of money to pay for food during the last week of the month and wanted to learn how to live within her means. She was accustomed to asking her mother for money, but her mother had recently been laid off from her job because of budget cuts. So Jane took the matter into her own hands. After the second month of practicing her new budget, she even had a little money saved. The skills she learned in budgeting her money have also allowed Jane to more effectively budget her time. Her friends now ask her how she has become more motivated to study and still have time to work and volunteer at the nearby school. She thinks about their question and replies, "I received financial education." Educators' role is to step up to the challenge of providing financial education, to add this much-needed component to the student experience, and to offer this highly relevant way to deepen students' learning and development.

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The Investment PUZZLE

No matter how much money you have, setting aside at least a few dollars a month can help you build a solid portfolio to help you ride through the industry's tough times. Tim Hanson, a senior analyst at The Motley Fool, offers some advice for making the most of your cash.

Open a 401(k) as soon as possible

Sure, you meant to open a 401(k) when you started your job, but you had plenty of other expenses. But procrastinating even a few years can cost you tens of thousands of dollars in the long run, Hanson said.

"The statistics are unbelievable," he said. "If you invest $1 for 50 years at an interest rate of 10 percent, that $1 will turn into $150."

That's because of compound interest. The longer money has to accumulate compound interest, the quicker it will grow.

"If you did that for only 40 years, you'd get $45. That extra 10 years gets you from $45 to $150," he said. "If you can only put away $1, you'll be much better off 50 years from now."

Meena Thiruvengadam, a business reporter at the San Antonio News-Express, opened a 401(k) a year after she was eligible. She acknowledged it was difficult at first.

"The hardest part was anticipating a smaller paycheck, and that brought out the procrastinator in me," she said. "Once I committed to contributing a certain amount each pay period and did the paperwork, however, keeping it up has been easy."

So remember: a few dollars today will be many more dollars decades from now.

"Time is much more important than what you're investing," Hanson said.

Don't fear the stock market

As journalists, we read and report constantly on the struggling economy. The flow of bad news is enough to make many people shy away from the stock market. That's exactly the wrong move, Hanson said.

"If you invest $1,000 and a couple months the stock market goes down, your brain tells you to pull out," he said. "Don't do it. The market over time goes up about 10 percent a year, so it's just a matter of discipline."

Hanson said to steer clear of quick decisions and instead look for solid companies with a positive income flow. He said stock in excellent, well-known companies can be purchased now for just a fraction of what they were going for even a year ago.

He also said to take advantage of index funds and money markets. Recommendations can be found at www.fool.com. If a stock takes a tumble, stay calm.

"Panicking is absolutely the worst thing you can do," he said.

Get rid of credit card debt

Before investing in the stock market or opening an IRA, Hanson said, you should evaluate your credit card debt. If you are earning about 10 percent from the stock market but are paying 18 percent on a credit card, you're losing money.

"Don't invest at the expense of paying off your debt," he said. "Consolidate if necessary, but you can't do anything until you get

Here's some reading to get you started on your investments.

A full book list is available at www.fool.com.

"One Up on Wall Street," Peter Lynch

"Buffett: The Making of an American Capitalist," Roger Lowenstein

"Value Investing With the Masters," Kirk Kazanjian

"The Davis Dynasty," John Rothchild

"Valuegrowth Investing," Glen Arnold

"The 5 Keys to Value Investing," J. Dennis Jean-Jacques

"Beating the Street," Peter Lynch

"Investment Fables," Aswath Damodaran

"The Vest Pocket Guide to Value Investing," C. Thomas Howard

"Common Stocks and Uncommon Profits," Philip A. Fisher

Pay yourself first

If you don't look out for yourself, who will? Set aside money for a 401(k) and a savings account from your paycheck before paying any bills. Get used to not even having that money available.

"I set up a separate savings [illegible] paid I deposit 10 percent into this account," said Amy Green, a Orlando, Fla.-based freelancer for publications such as Peop and The New York Times. "That means if I get paid $100, I depo $10 into this savings account. It's like my tax withholding."

Green said this separate account can come in handy f necessary work purchases and quarterly income taxes, preventi her from dipping into the family's main savings account.

"This way I'm prepared to pay taxes every few months, a whatever is left in April I reinvest in my freelance business," s said. "I've used this money to buy a printer, camera and go journalism conferences. It's a way to save without feeling like I' missing much."

Thiruvengadam sees her pay raises as opportunities to sav not spend more.

"I've essentially turned subsequent pay raises into additio 401(k) contributions. I never actually see the extra money in r check, but my investments grow and I can still survive on r own, thanks to that first pay increase," she said.

Look for tax deductions

Be sure to fill out expense reports at work and save yo receipts; even $10 a week can add up. Take a look at your inco taxes and see if itemizing your work-related expenses would better for you than taking the standard deduction. Talk to c workers to see what they deduct for work and ask for advice co tax time, said Paige In

If you had a spare $1,000 back in August 1982 and invested it in, say, Hewlett-Packard, you could have sold your shares in mid-October for about $20,000. (Oh, well.) The Dow rose some 9,500 points in that remarkable period. The real economy, meanwhile, roared in harmony with the markets, churning out jobs and wealth. The result, for some Americans, has been more security and expanded dreams and, for those at the top, untold riches. Money, as Cyndi Lauper once explained, changes everything. In the package of stories that follows, CJR *explores how well we journalists have covered this age of money, and how it has changed what we do.*

Business Reporting: Behind the Curve

BY DIANA B. HENRIQUES

In 1980, I was working in New Jersey as an investigative reporter at *The Trenton Times*, trying to unravel the local angles of the FBI's wacky "Abscam" sting, in which members of Congress were secretly filmed accepting bribes from undercover agents posing as aides to an Arab sheik.

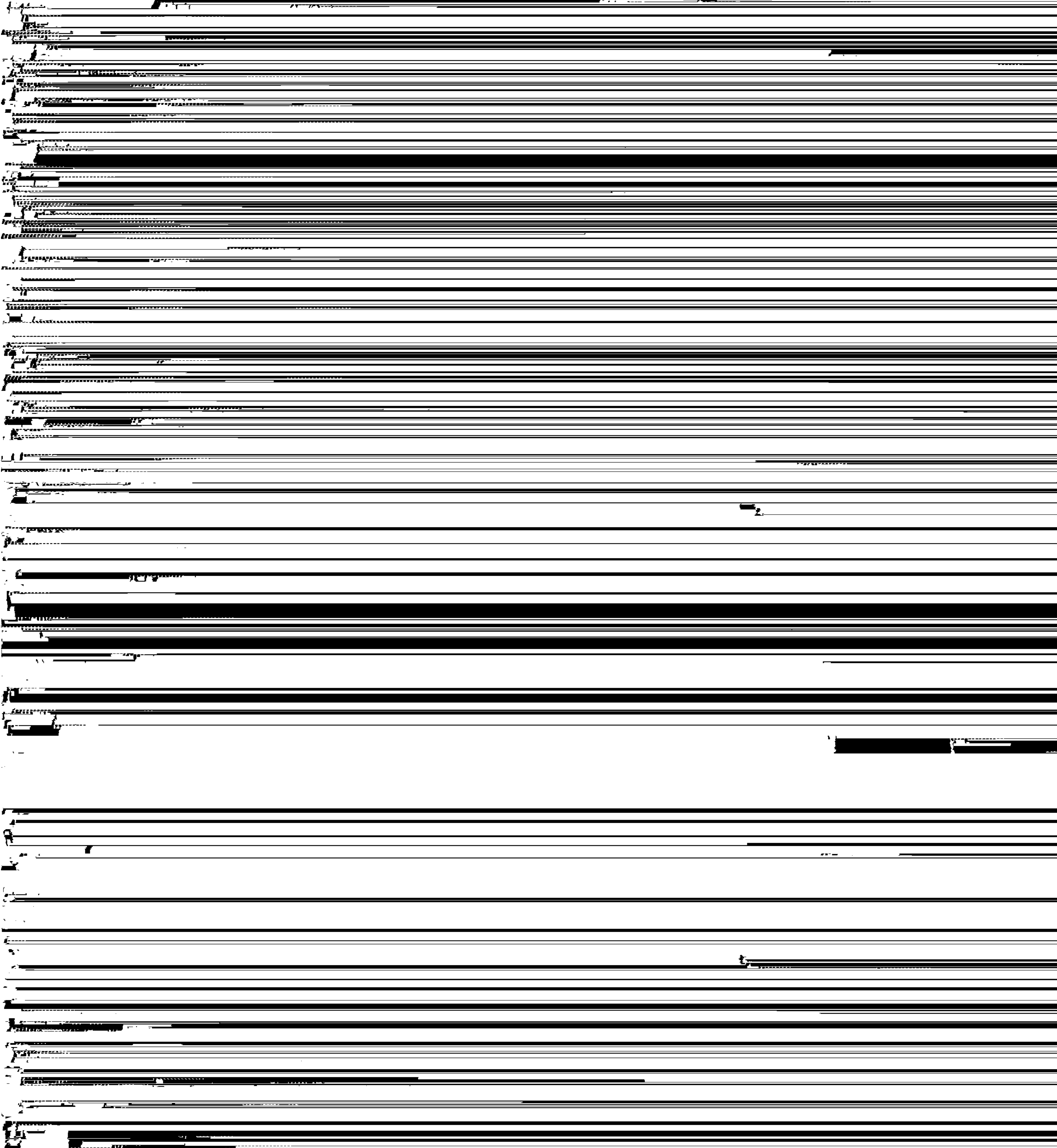
At the time, the prime rate — the interest rate banks charge their best corporate customers — was skyrocketing. Federal Reserve Chairman Paul Volcker was waging all-out war against inflation. In the resulting recession, local manufacturing plants were cutting back. Labor unions were reeling from job losses. Local department stores were closing, and statewide banks were shaky. "It

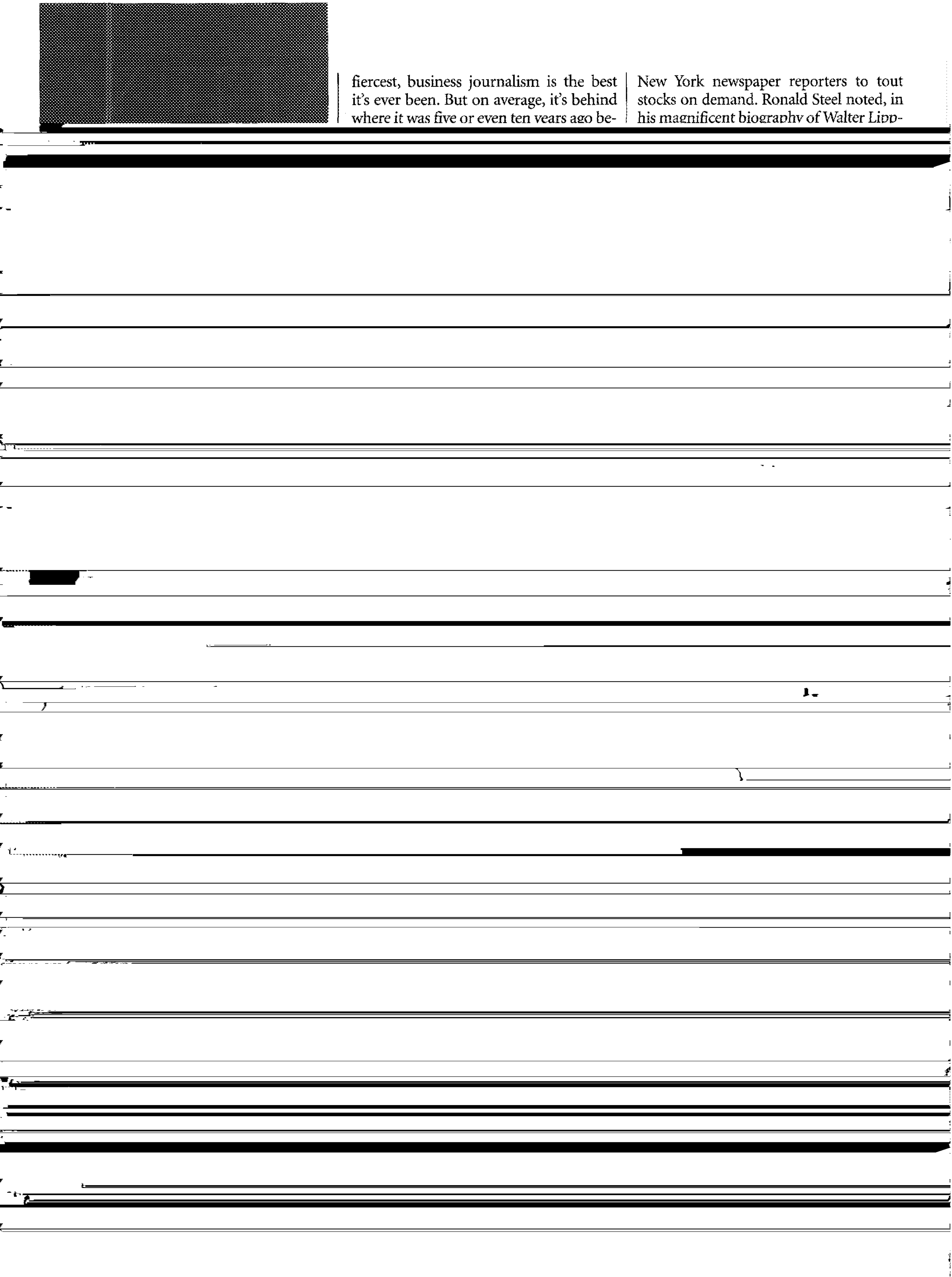
part of a migration that began slowly and has since become a thunderous stampede. The media monitor Dean Rotbart estimates there were only a few thousand business journalists in 1980. When his newsletter, *TJFR Business News Reporter*, first counted noses in 1988, there were about 4,200 of us in the top fifty newspaper markets and at national business publications. And today, at those same newspapers and magazines, on television and on the Web? "Clearly over 12,000," Rotbart says.

Of course, by 1980, some of the nation's giant metropolitan newspapers had already dramatically expanded their commitment to business news — or, at least, to economic news. Hobart Rowan, recruited from *Newsweek* by Ben Bradlee, had begun to beef up *The Washington Post*'s meager business section by the mid-1960s. John F. Lawrence, a twelve-year veteran of *The Wall Street Journal*, became financial editor of the *Los Angeles Times* in 1968, bringing along a young *Journal* investigative reporter named Paul E. Steiger to help him (Steiger is now the *Journal*'s managing editor). In 1978, *The New York Times* unveiled one of the nation's first standalone business sections, Business Day, under the direction of John M. Lee, who had been the paper's financial correspondent in London and bureau chief in Tokyo before becoming business editor in 1976.

"There had been a huge explosion of economic news in the 1970s," Lee recalls, citing President Nixon's wage-price con-

ge of MONEY





fiercest, business journalism is the best it's ever been. But on average, it's behind where it was five or even ten years ago be-

New York newspaper reporters to tout stocks on demand. Ronald Steel noted, in his magnificent biography of Walter Lipp-

Although Winans insisted to the end that he had not violated any laws, he knew what he had done to his fellow journalists. He had "confirmed the suspicions of many investors about stock market writers — that they take personal advantage of the information they gather. Realizing this hit me pretty hard."

Looking back after sixteen years, I still feel that the Winans affair put all the fearsome temptations of modern business journalism into razor-sharp relief for me. How could anyone mistake these for fuzzy-edged issues? But Matt Welch, a trenchant young media critic for the *Online Journalism Review*, told me recently that he is convinced that Winans's sins, if committed today, would not provoke one-tenth the media outrage expressed in 1984. When a Silicon Valley gossip columnist accepted cheap pre-IPO shares from a local technology mogul, he noted, many supposedly sensible professionals wondered aloud whether she had done anything wrong. "Journalists see all these people getting rich — including other journalists, back when online content was worth something," Welch says. "And a lot have really lost their bearings."

I can only hope that he is wrong. If he isn't, no matter how rich today's young journalists become in this great business-news bazaar, journalism itself will be poorer beyond measure.

But let's assume, under the influence of some persuasive Chardonnay, that most of us will attain the rocky promontory of intelligent skepticism and dig in there for the duration, regularly producing lucid, hard-headed business coverage. And let's further predict — yes, please, just another splash of that wine — that most of us will do so with our honor and reputations intact. We would still just be talking about what kind of people *we* are. And ultimately, this boom in business journalism is not really about us. Rather, it is about our relationship with those we're trying to reach — whether we call them readers, viewers, or (heaven help us!) "eyeballs."

My friend Jaye Scholl reminds me that most new business writers back in 1980 instinctively and perhaps wrong-headedly approached local business news from

The State of

THE AMERICAN NEWSPAPER

FOLLOW THE MONEY

Taking a cue from their readers, newspapers have

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with Black Tuesday and the Great Depression still four years down the road, if Americans were “profoundly concerned” with business you certainly couldn't tell it from their newspapers. Indeed, scant and naïve business coverage was later cited as one reason so many Roaring Twenties investors were in over their heads. For the mainstream press it would be another

half a century before business news was hardly worthy of the

background aren't qualified to be hired. “The young people we get now have awesome talent,” he says. “They can write a page one story immediately, and they *want* to cover business.”

The new business culture is no secret; you can't pass a corner newsstand or go online without having it slap you in the face. But the statistics

tent survey of 10 mainstream regional dailies, conducted by

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pumped a mere $1 trillion into funds; today that number has exploded into an absolutely staggering $6 trillion. (This happens to be about $1 trillion more than the total national debt, principal plus interest.)

The funds have ridden a stock market whose trajectory in the '90s has looked like a bottle rocket. Toss in the Internet explosion and the mind-boggling volatility of tech stocks and the effect has been addicting. If business used to seem a dusty, cobwebbed affair, it's not anymore. Checking out the roller-coaster stocks in your personal portfolio packs all the thrills of a sudden-death playoff—with considerably more at stake. Compare the dash of an Intel with the staidness of a Kellogg's, a Compaq with a Ford; can there be any wonder why journalists who once fled business editors are now running *after* them? Says the Post's Ignatius, "Business news has gone from broccoli to dessert."

Of course, you can make a strong case that this fascination is really nothing new. "The economy has *always* been the big story in America, even if newspapers didn't treat it as such," contends the Oregonian's technology editor, Mike Francis. "I'll bet the typical newspaper reader has always cared a lot more about the economy—and his place in it —than about Cold War politics, or even the Vietnam or Korean conflicts. Most newspapers simply failed to recognize it."

Ironically, when they *did* recognize it, many newspapers were busy whittling away at staff and newshole in other areas, such as foreign news. But determined editors managed

companies, as is often the case today?

Then there's pay. Good business reporters at a first-class paper earning, say, $60,000 or $80,000 find that people of their own age and educational background are earning considerably more at online portals. Front-page glamour fades quickly under such circumstances, and most editors are powerless to compete. Even if some can muster bonuses to snag an especially talented business reporter, the pay differential can create bad feelings and morale problems around the newsroom. The difficulty compounds when these reporters are also the hardest to find, skilled in the intricacies of technology, finance and economics, the most desirable fields in the electronic media.

Then there's the more subtle but very real problem of our business infatuation coloring all else. Already you can sense this in the reporting coming out of Washington. The capital press corps increasingly is populated by business journalists, and they are tackling more and more stories—from health care to welfare—that once were the purview of traditional news reporters. But if these stories are being reported through a business filter, is anyone asking the broader questions about government policy? Yes, a program might be in business' best interest, but what about the nation's? Is it fair? Is it wise?

Editors got their money

Important concerns all, and newspapers coast to coast are grappling with

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major at Chapel Hill, Murray had an "interest" in economics, a subject of less than passing fancy to most journalists at the time. "So, I offered to cover economics, and they made me business editor, at age 23—which shows you how bad things were."

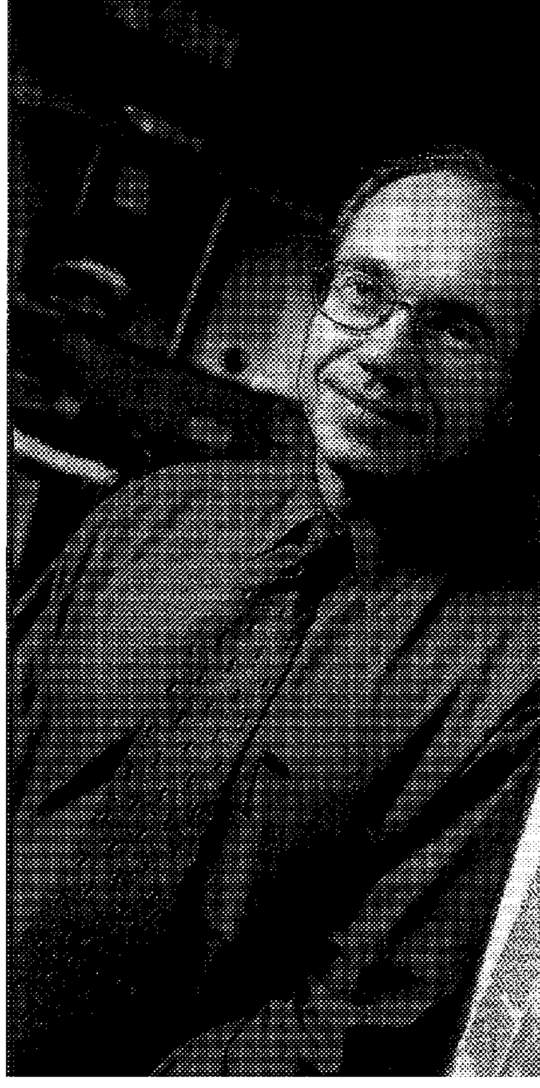
A year later he enrolled at the London School of Economics. Then, with newly bolstered academic qualifications, he spent the next four years career-building, in Washington at Congressional Quarterly and in Tokyo at the Nihon Keizai Shimbun, often referred to as "Japan's Wall Street Journal." In 1983, he went to work on the Washington staff of the genuine article. He arrived just in time for the business boom—and as the Journal began to encounter serious competition on all sides.

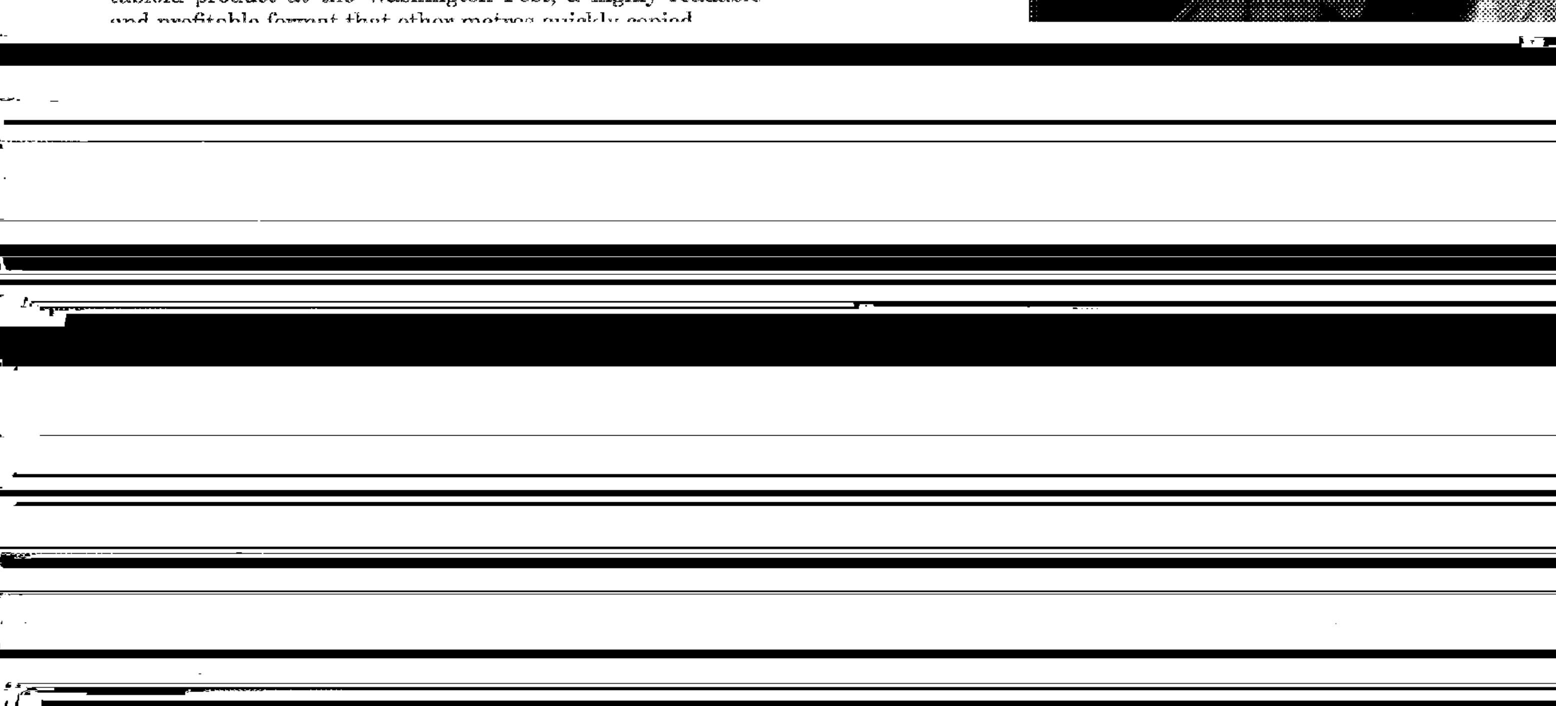
The granddaddy of business coverage, the Journal still sets the standard for others to shoot at. But the improving marksmanship exhibited by so many "nonbusiness" papers has been extraordinary to watch. "We haven't changed drastically since '83. Rather, everyone else has changed to be more like us," Murray says. "As a result, where we used to have very little competition, we now have a lot."

So much, in fact, that the financial daily's circulation has remained flat for more than a decade. Journal numbers started slipping in the mid-'80s, from a high of 2 million to between 1.8 and 1.9 million, where they hover today, according to Peter Kann, chairman and chief executive of Dow Jones Co., the Journal's parent. "Our circulation began to dip…as major corporations began changing direction and cutting back on staff," Kann says.

Exacerbating the problem for the Journal was the fact that at the same time, the sea change in the mainstream media's approach to business was well under way. The public, having lived through the harrowing inflation of the mid-'70s, had become increasingly concerned, and sophisticated, about how the overall economy affected them personally. The term "pocketbook issues" joined the political and media vocabularies. For newspapers, a pivotal event was the appearance in 1980 of Business Monday at the Miami Herald and a counterpart tabloid product at the Washington Post, a highly readable and profitable format that other metros quickly copied.

Now Washington bureau chief of the Wall Street Journal, ALAN MURRAY *was business editor at age 23 in Chattanooga—"which shows you how bad things were."*





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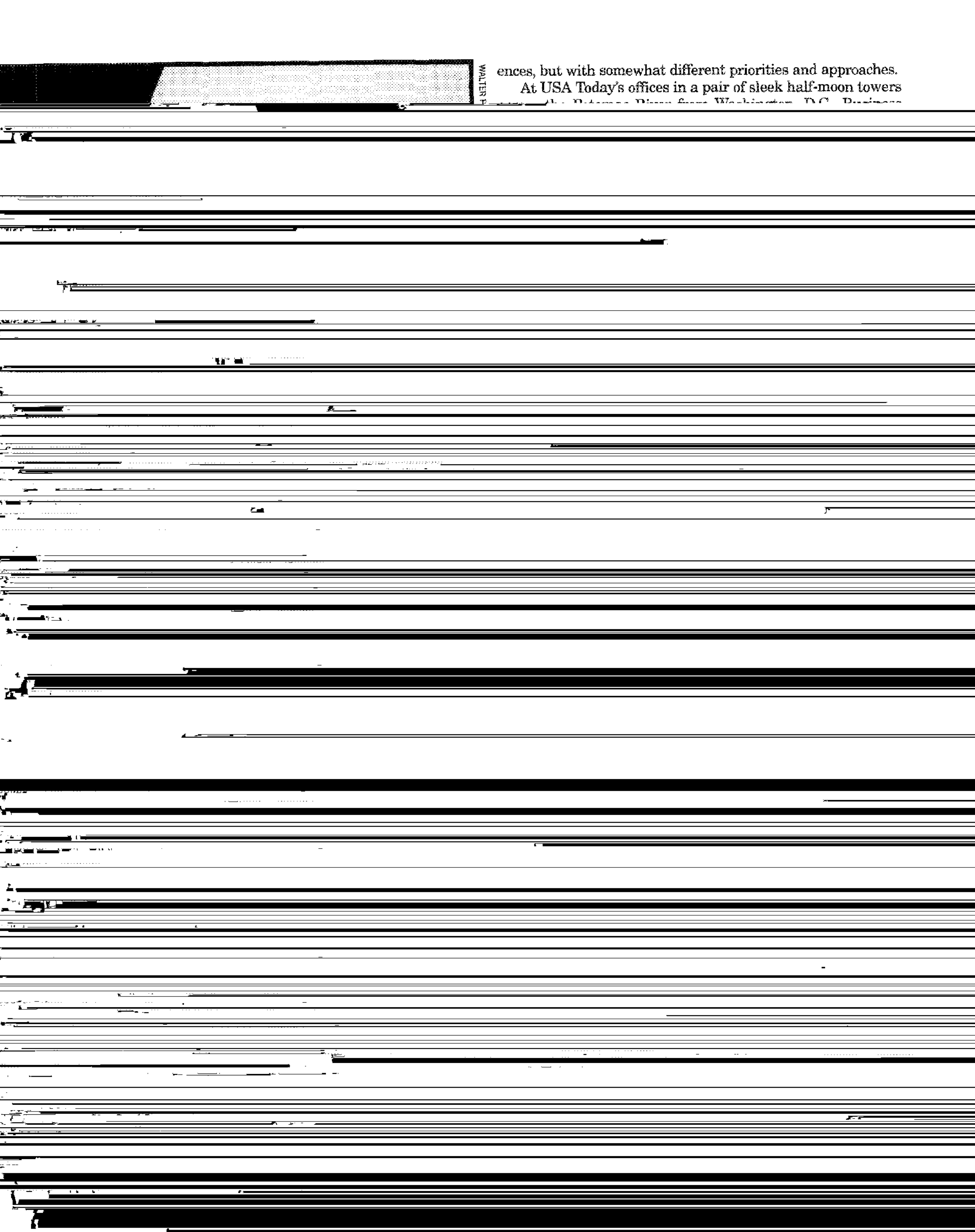
ences, but with somewhat different priorities and approaches.

At USA Today's offices in a pair of sleek half-moon towers



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Technology
Markets
Ad marketing
Personal finance

Money staffers are issued wallet-size cards emblazoned with the catechismal exhortation and blowups are taped to walls. The gimmicks are in keeping with the paper's founding philosophy. Says Ray Goldbacher, who edits the personal finance matter, "From day one there was an emphasis on personal finance, because USA Today was intended to be a 'second read' for travelers. Then readers began asking for more news, including the big stories, and we turned our attention to that for a number of years. But in '94, we returned to our roots: back to an emphasis on personal finance. We've found that it's what people really want and need."

At USA Today, Business Editor John Hillkirk puts the focus on personal finance.

Goldbacher, who came to the paper in 1986, assembled what he calls a "talented team" of four and began putting an emphasis on mutual funds

in 1994, focused almost immediately on improving the business report. He hired John Geddes back from the Wall Street Journal and made him business editor. At this point the paper's efforts went into mining the realm of personal finance, but in time Lelyveld decided that the emphasis on individual investing had been overdone.

"That's not what readers turn to us for," Lelyveld tells me in his small, pin-neat office. Instead, Lelyveld says, the Times is concentrating some of its heaviest fire on a different target: the confluence of global politics and business. The Times reporter first assigned to this target, and the one whose name comes up most often among others in this field, is David E. Sanger. "The quintessential modern reporter," Sanger's boss, Business Editor Glenn Kramon, calls him.

Formerly the paper's Tokyo bureau chief, Sanger has been on the international business beat in the Washington bureau for the last five years. Over a nostalgic bowl of *soba* at a popular downtown D.C. lunch spot called Oodles Noodles, Sanger says that while he still misses the more varied life of a foreign correspondent, he has no doubt that he is covering "the most important story in the world. When I left Tokyo and came

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last year, Kramon recently hired five reporters to be based in key business centers around the world: London, Moscow, Singapore, Toronto and Sao Paolo. In addition, editors have instructed the paper's 40 or so foreign correspondents already posted to blend their coverage cocktails, traditionally based on politics and culture, with a stiff shot of business and economics. Not surprisingly, the new demands for stepped-up business contributions from correspondents long considered the exclusive property of the foreign desk don't always go down smoothly. Turf struggles arise. In an effort to improve relations between foreign and business, Lelyveld established the position of international business editor, who sits on the foreign desk.

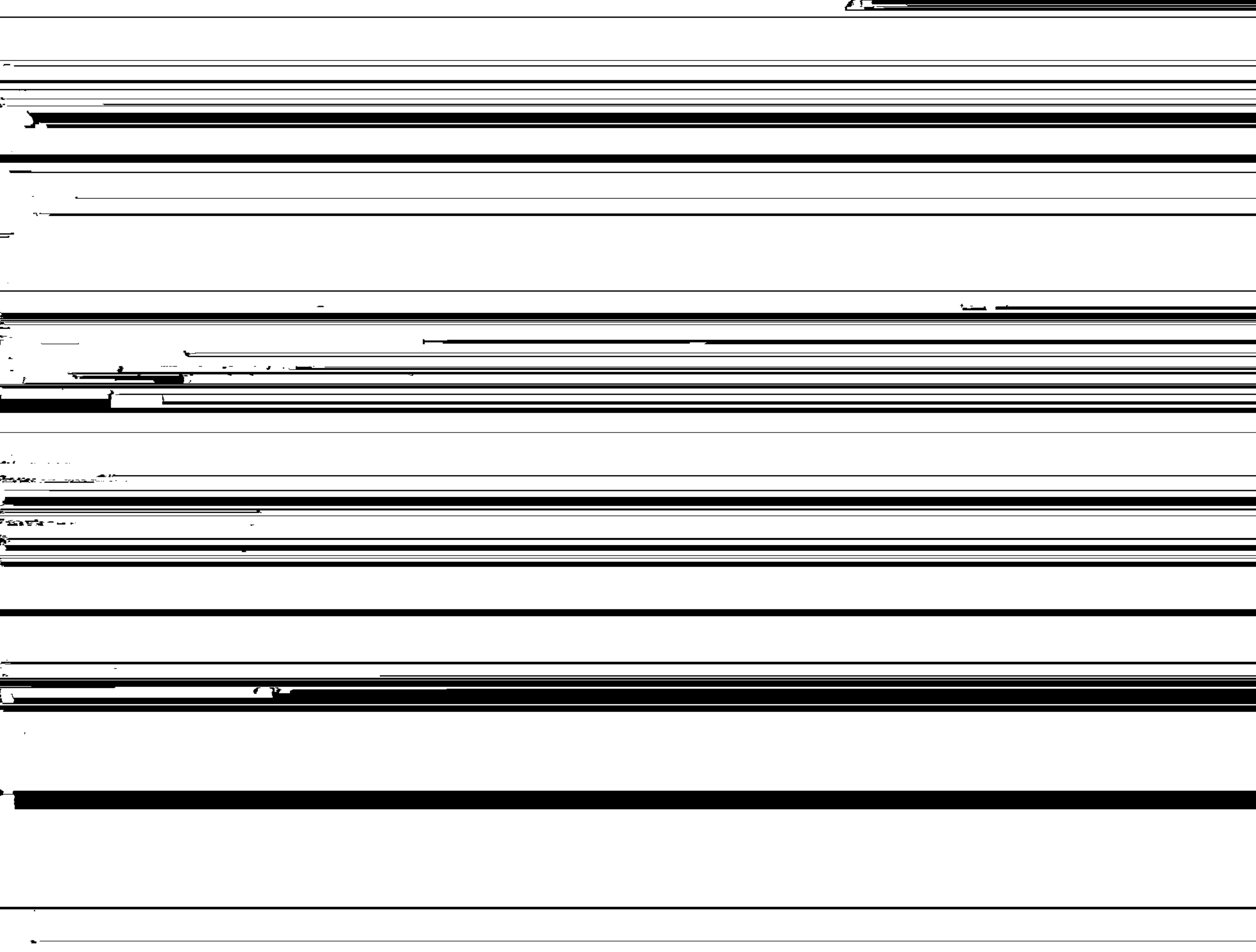
The very intentional effect of all these moves has been to blur the lines between what some reporters still call "regular" news and business news. "We've recognized that every story is a 'business' story," says Kramon.

Want proof? Take the August 29 Times, a Sunday, as an arbitrary example. The front page carried a story on how contributions from tobacco companies were embarrassing the Gore and Bush campaigns. On the front of Sunday Styles was one piece about New York's "Silicon Alley" developing its own cachet and another on how the beauty business was moving

slick pages of Sports Illustrated, yet it had a nice business edge.

Needless to say, global giant Nike, headquartered in a Portland suburb and one of the Northwest's major employers, "is a big deal to us," says Business Editor Mike Hester. "Here, we talk about the 'Nike footprint' and the 'Nike psyche.' " In other words, the paper values stories that get beneath the company's glossy veneer, as Manning's did. A sports approach to the same story might have focused on the shoe's technical qualities—"feather-light, air-cushioned, reduces shock"—but Manning chose to emphasize how Nike had struck an unusual deal with the financially troubled Venator Group, granting their Foot Locker stores, the largest athletic shoe chain in the country, exclusive rights to the new design. The result: huge sales for Nike and Venator and unbridled fury from competing retailers.

Not many years ago a story like this, if it had been produced by a business writer at all, most likely would have been a stylistically arid affair. But here was Manning's appealing lead: "Sean McDowell, a young Nike Inc. athletic footwear designer, returned to Beaverton from a Florida vacation in October 1997, his mind chock full of images of white beaches and languorous purple sunsets. Little did he know his tropical daydreams would help revitalize the industry's largest retailer, let alone



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overworking and underpaying them. In 1992, well before the issue came to national prominence, the paper dispatched to Southeast Asia a business reporter who wrote an overwhelmingly negative piece. According to Hester, Nike founder Phil Knight—intriguingly, the son of the former publisher of the Oregon Journal, since subsumed into the Newhouse-owned Oregonian—"hated" the story and "retreated into a deep hole"

Scott Osler tracked the potatoes, 20 tons worth, step by step—from a technologically advanced farm in neighboring Washington run by members of the Hutterite sect, to a processing plant which prepared them for McDonald's outlets in Indonesia, to a ship sailing out of Tacoma, to Hong Kong, and from there to Singapore. They followed the fries to Jakarta, hitting town just in time to cover the economic-sparked riots that resulted in the

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In a recent report on business coverage, the Freedom Forum's Media Studies Center said that the press' daunting task really boils down to this: Cover a far more complicated universe and make it intelligible to far more people than ever before. The Oregonian's

around the world. And, says Kennedy, they've never looked back. "It was a truly defining moment. In essence, the story—the business story—has been on the front page ever since."

While the business news phenomenon has been developing for several decades now, it was the exponential rise in

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succeeded in restoring them, with some tailoring for the Washington audience. Today the paper publishes more than

EMMRICH

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Like other emerging high-tech hubs, such as those found around Boston and in the Northern Virginia suburbs of Washington, Austin is echoing to the shot first fired a gener-

which debuted at a prosperous 24 broadsheet pages, is staffed by a business reporter who specializes in personal technology, a general features writer, a designer, a photographer, a graphics artist, a part-time copy editor and a part-time clerk. "This is the first time in quite a few years that we've had this kind of growth around here," says Segrist.

With the region's economic expansion, the paper's circulation has been ticking up nicely at about 1 or 2 percent a year. But a readership analysis shows that penetration is low in the community's Hispanic precincts. Since advertisers here pitch to the upscale end and reporters tend to worry about the deprived, staff meetings have seen questions about whether Technopolis will ignore the lower socioeconomic classes while catering to the wealthy. "These are, obviously, highly legitimate concerns," Oppel responds. "But we mustn't disparage the high end, because that's the end that makes *everything* possible. Bluntly, yes, there is an emphasis on the high end, but that strengthens our ability to do better journalism."

In some ways the Mercury News may have succeeded too well. Top reporters are being wooed by bigger papers and more money.

While Oppel expresses only praise for the editorial freedom he receives from Cox, it's clear from this and other of his comments that he is under pressure to raise ad revenues. "An editor's shrewdness about where to take a newspaper provides the way for that newspaper to grow in the next 10 years," he says. "We've got to figure out ways to build alliances with advertisers and circulation. But we don't prostitute ourselves."

The concerns of Austin's staff are of a piece with other touchy areas arising from the business bonanza. Yes, the boom has created new opportunities for revenue generation, promotion and corporate partnerships, but what is a paper's rightful role? When a newspaper gets too cozy with the businesses it covers, the potential for conflicts can rise dramatically. Take newspapers' sponsorship of investment conferences, something popularized by the Los Angeles Times and spreading nationwide. These can be lucrative—the papers typically sell sponsorships to companies in exchange for ads and exhibit space—but they are rife with potential pitfalls.

In October, for instance, the Philadelphia Inquirer held its second such conference, drawing upwards of 4,500 participants. At other papers, editors have told me privately they're not sure enough steps are being taken to ensure journalistic probity where these programs are concerned. But in Philadelphia, Business Editor Hank Klibanoff says he has taken pains to construct "high brick walls" to separate his journalists from the paper's advertising staff, which organizes and promotes the affairs. "We [journalists], not the ad people, provide the content ideas," he says. "And even the invitations aren't handled by the ad people; they're issued by a third party, Morningstar."

Despite the precautions, Klibanoff acknowledges being nagged by a sense of "mushiness" about the fact that corporate sponsorships of the conferences have enabled the Inquirer to launch a Tuesday investment section. Although he praises the section as being "smart, sophisticated, yet not above the eye level of the average reader," he admits that it wouldn't exist without "our knowing that companies out there would advertise in it."

The ongoing argument between editorial staff and ad sellers is as old as newspapers, and it has never been resolved to both sides' satisfaction. But it has become more acute, especially in the wake of the technology boom, as business sections metamorphosed into significant revenue earners. Business pages are particularly attractive draws for certain types of ads. One is the so-called tombstones, often full-page announcements placed to herald the offering of new securities. These ads—understated, heavy on white space, with just a few lines of names and numbers plus a corporate logo—represent leading profit-earners in the business pages. Another strong category is advertising for mutual funds. A third and fast-emerging sector is the dot-com ads for Internet-related companies.

And then there are the "island" ads, for broker services or banks, say, which float in a sea of agate stock tables. Island ads were highly controversial when the newspaper industry advocated their adoption in the mid-'80s, many editors considering them an unprecedented breach of news content. To this day such major papers as the Journal, Times, Post and Inquirer, among others, still won't run them. But they are in the minority, and you scarcely hear the practice even debated anymore. Island ads are now so standard that they appear in countless other top papers, among them the Atlanta Journal and Constitution, Baltimore Sun, Denver Post, Miami Herald and St. Louis Post-Dispatch.

Like other editors I talked with about this issue, Oppel happily acknowledges the earnings potential of the fledgling Technopolis section, but emphasizes the paper's insistence on editorial integrity. "Publishers stand accused of not using their papers as a public trust, while editors are guilty of not recognizing them as businesses—which they've always been," Oppel says. True enough, and as you drive about a community like Austin, where development hits you like the heat, squarely between the eyes, you want to applaud a paper that recognizes and capitalizes on the phenomenon. At the same time you hope its writers and editors are up for what is surely the greater challenge: Caring about, and covering, not just those who are enjoying this boomtime ride, but those who are left behind.

IN CRANKING UP TECHNOPOLIS, THE AMERICAN-STATESMAN turned for some pointers, not surprisingly, to the San Jose Mercury News. Once the Merc was a sleepy daily in an even sleepier town thought to lie somewhere south of San Francisco and known primarily for apricots and prunes. Today San Jose is the unofficial capital of Silicon Valley, itself the unofficial capital of the digital universe. And the Mercury News, its unofficial voice, tells the story of the place, the products and the people in ways that excite the envy of countless other news organizations.

Two decades ago the Merc pretty much had to invent high-tech coverage, since at the time practically no one in daily journalism knew much about the burgeoning industry. Columnist Jim Mitchell recalls that when he joined the paper in 1977, the business department had a staff of three. Now it has 40, not counting dozens of other employees at Mercury Center, the paper's online extension that itself specializes in

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the tech realm. "We were very weak," Mitchell says. "Today, we're the best in covering electronics—and probably all technology—as we certainly ought to be."

Executive Editor David Yarnold, who succeeded Jerry Ceppos to the top job in May, says that tech coverage has come to distinguish and differentiate the Mercury News brand. Certainly there's little question that the paper and its owner, Knight Ridder—which last year moved its corporate headquarters from Miami to San Jose, a clear sign of where it believes power lies—will continue to grow the business report. "It's one of the most important stories in the world and it's happening right here," says Yarnold, pointing out that two years ago Silicon Valley led the United States in exports, and last year ranked second.

More than that, the paper has excelled at doing precisely what Austin says it wants to do, which is go beyond conventional news reporting to convey the feel and pulse of this dynamic place, in every venue of the paper. Considering how thoroughly the Merc has achieved this integration, it's hard to imagine how close it apparently came to missing out on its own story.

Ceppos, my old boss and now Knight Ridder's vice president for news, recounts this from the deck of his home, perched amid disappearing wineries in the Los Gatos hills. By 1995, he says, the paper was covering high-tech, of course, but more or less in the rote way that it might handle education or the courts. It had become complacent, and just maybe a little myopic: The high-tech story was happening at such close proximity that the Merc wasn't seeing the broader ramifications. Then outsiders began slipping into the paper's backyard, setting off alarm bells. In February 1996, for instance, Time published a cover story on Marc Andreessen, the 24-year-old programming wizard behind Netscape. Seeing it, Ceppos says he felt violated. A week afterward, he summoned the news staff to a slide-illustrated speech in which he told them that they "were on the verge of missing...the full story of the people who make Silicon Valley unlike anywhere else on Earth."

He credits former Assistant Managing Editor Jonathan Krim, who during 16 years with the paper edited both its Pulitzer Prize winners, with "drawing the map" that guided the Mercury News through the resulting period of growth and improvement in its business coverage. That plan focused heavily on what Ceppos has called "the modern-day Medicis" of the valley. As a result of the changes, the paper emerged "ahead of the curve, but only by a hair, and just managed to avoid having our lunch eaten," says Ceppos, merrily mixing metaphors.

Simultaneously, the paper was building its Internet presence. Mercury Center debuted in 1992, and with its spinoff sites it has grown right along with the Web even as it has covered that growth. Today Knight Ridder is moving aggressively to parlay its many newspaper Web sites—already linked in the RealCities network—into portals, which are megasites

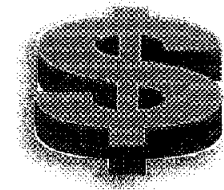
up by the Times, the Journal, Fortune and, in the newest wave, by Web sites like TheStreet.com. One such notable is Adam Lashinsky. For a reported $250,000 salary plus options, the young reporter evidently found it easy to walk away from the rambling, warehouse-like building on Ridder Park Drive to write a Silicon Valley column for TheStreet.com.

Indeed, Lashinsky's case raises the specter of money—big money—which is unavoidable in Silicon Valley and which poses increasing problems for the paper in a host of ways.

First and foremost is the high cost of living, the flip side of the Silicon Valley dream. Prunes have pretty much disappeared from the landscape, and the orchards that once flourished across the flat countryside have been seeded with college campus-like complexes housing hardware, software and everything-in-between-ware companies. Not far from the work sites as the crow flies, but an hour or more as a BMW negotiates the ever more sclerotic "freeways," nothing-special houses cost a million dollars and more.

Real estate has breached these stratospheric heights because of the over-abundance of new wealth. At the same time, the San Jose area is heavily populated by recent arrivals from Asia and Latin America. Some are financially well off; most are not. How, the Austin people were curious to know, does the Mercury News tell *their* story while covering the broader setting of a cultural and economic flowering that Ceppos has likened to Renaissance Florence?

I ask Evelyn Richards, a prize-winning business reporter with whom I'd worked on several stories when she was covering technology from San Jose and I was based in Tokyo. As we chat alongside her paper-heaped computer terminal, she and some other writers are just winding up a year-long project on what she half-jokingly refers to as "the rich, the super-rich, and the obscenely rich—meaning anyone with $8 billion and a 60,000-square-foot home." But truth is, tales of such excesses no longer drop jaws around here. So Richards and her colleagues are using the area's stunning wealth as a vehicle for relating the largely ignored lives of those who are not only left out but, ironically, suffer even more because of the wealth surrounding them. "Not everyone shares in the high income," she explains, "but everyone shares in the high costs."



That includes newspaper staffers—who, while they live substantially better than many others in Silicon Valley, increasingly must look further and further afield for houses they can afford. Still, established writers on the business staff typically earn $10,000 or so more than their colleagues on other beats, as is the case at many other papers, because reporters who understand the intricacies of business—particularly specialists—are quite hard to come by. And to attract them to expensive spots like San Jose requires some sweetening of the pot.

Even so, no amount the Merc or any other paper might [illegible]

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The big money and fast fortunes commonplace out here create other problems, too. Consider the well-chewed case of Chris Nolan, which for months has fueled an online debate about what constitutes journalistic ethics in the Internet age. Over the summer the Merc exiled the former tech-biz-buzz columnist after the Wall Street Journal reported how she had profited $9,000 when a local company went public. Nolan had purchased shares in an online automobile supply outfit at the urging of the company's CEO. Nolan maintained that the CEO was an old friend and that she didn't cover the company; the Merc contended he could be considered a source and that the transaction violated journalistic ethics. The case remains in arbitration.

The Web has been rife with arguments, pro and con, about Nolan's case. They take up not only the fuzzy particulars of her case—e.g., did asking her boss about the purchase constitute adequate clearance?—but its broader implications. Is it time, some wonder, for the industry to revisit such longstanding commandments as "a reporter shall not invest in a company he covers"? Can today's busi-

JON FREILICH

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Here's How To Use The News And Tune Out The Noise

By Jason Zweig

Money, 27 no7 63-4, July 1998

I hate to seem as if I'm raining on my own parade, but recent events have me wondering: Is there such a thing as paying too much attention to the financial press? Are investors today better informed than they used to be–or have they become too well informed?

Last December, Warner-Lambert stock lost 18.5% of its value, or $7 billion, in a single day when a British company said it would stop selling a Warner-Lambert diabetes treatment. But over the next three months, Warner-Lambert sold $138 million worth of that drug–plus $1 billion worth of others–and the stock gained a third, outperforming the market by nearly three to one.

In May, the stock of Entremed, an obscure biotech company, shot from $12 to $85 in a day when the New York Times reported that two of the firm's drugs showed promise as cancer cures. Fidelity Select Biotechnology, a fund that specializes in similar stocks–but didn't hold Entremed–jumped 1% that day as its holdings rose in sympathy. Then the reality sank in that the drugs have worked only on mice; the stock shrank back below $30, and the Fidelity fund lost value for the week. Only a few days after it broke the front-page news, the New York Times ran two articles scolding investors for not realizing that Entremed's prospects were not that bright after all.

In both cases, traders who acted on the first burst of news ended up kicking themselves. Why? Because these days, news reaches everyone so swiftly that it's almost impossible to beat the stampede. It wasn't always this way.

Back in 1790, as soon as Alexander Hamilton released his plan to reorganize U.S. debt, crafty bond speculators sailed south from New York in sleek ships that outraced the good news on land. Those speculators snapped up bonds from uninformed small investors at 20{cents} to 25{cents} on the dollar, and within days, they were able to double their money. Likewise, in 1815 financier N.M. Rothschild made a fortune buying English bonds after his elite private couriers slipped him the first word that the British had defeated Napoleon at Waterloo.

In Hamilton's and Rothschild's time, news took days to travel from Paris to London or New York to Philadelphia, giving clever investors a chance to get the word and act on it before anyone else. But today, over the Internet and CNBC, news flits from Jakarta to Chicago in nanoseconds–and professional and amateur investors alike can follow every twitch in a stock as closely and easily as intensive-care doctors monitor changes in a patient's pulse.

Mind you, it's still possible to get wind of big news before most people do. This May, the Internet chat rooms were rife with rumors that Tyco International was about to acquire U.S. Surgical. If you'd pounced on U.S. Surgical when the rumors first surfaced, you could–in theory–have earned more than 25% in just 12 trading days.

But in truth, investing is rarely that easy: First, the Tyco rumor was fueled by what appears to be inside information–not the kind of thing you often can get hold of legally. Second, for every online rumor that turns out to be true, there are scads of them that turn out to be false. Datek, the Internet brokerage firm, says in its ads: "Big newsnity. Points 779 brobe bromade in a

the financial media tend to isolate recent changes, rather than put them in context. In fact, the flow of the news makes trends seem likely to persist just when they are most likely to reverse. Think, for example, of the glowing media coverage that Iomega, Oxford Health and Cendant got as their stocks were shooting almost straight up–and how, once the stocks stumbled, nobody in the press could find anything good to say about them anymore. Or consider fund managers Gary Pilgrim of PBHG and Garrett Van Wagoner of the Van Wagoner funds: After huge gains in 1995 and early 1996, they were written up as if they could walk on water wearing lead boots. Now the media often treat Pilgrim and Van Wagoner as if they're simply all wet.

That's because reporters, like most humans, fall into the trap of assuming that we can predict future results by analyzing recent patterns. Thus we tend to reinforce the notion that "when you're hot, you're hot–and when you're not, you're not." Unfortunately, a stock is no more certain to keep rising just because it has been going up lately, nor is a mutual fund more likely to beat the market this year because it did so the past few years. In fact, finance professors have amassed overwhelming evidence proving the opposite.

Also, the press usually focuses on the numerical amount of a price change, rather than on its value in percentage terms (which is what really matters). Thus a TV reporter may exclaim: "The market is dropping–the Dow is down 100 points!" even though, at the recent 9000 level of the Dow Jones industrial average, that's barely a 1% drop.

Now think how odd it would sound if the weatherman on the same TV station hollered, "It's getting colder–the temperature has fallen from 91{degrees} to 90{degrees}!" That too is roughly a 1% drop.

When we watch the market, much of what seems like news turns out to be nothing more than noise. A year ago the press was nearly unanimous in declaring Southeast Asia to be one of the world's best long-term investments; next, when the Asian Tiger markets collapsed last fall, you were advised to bail out; then, when those markets bounced up early this year, the coverage waxed bullish again; and now, with Asia in retreat, the news is back to bearish. Trying to follow all this is enough to give you whiplash--and to distract you from the key question: If Asia was a good long-term investment a year ago, isn't it an even better value today at half the price?

Listen to Charles Ellis of Greenwich Associates, the distinguished investment management consultant: "The typical stock price changes by at least 4% between its high and low each day. Since there are roughly 250 trading days per year, that implies a total price change of 1,000% per year. But the price of most stocks actually changes less than 15% per year on average, which means that more than 98% of all the movement is just flutter, or noise."

So how can you tune out the noise?

Stop checking your watch. Many people would panic if they did not know, day by day or even moment to moment, the exact prices of their investments. This impulse is understandable: It's your money. But the more you check your investments, the more they'll seem to bounce up and down.

By contrast, you probably don't check the value of your biggest investment, your house, on a daily or weekly basis. Does that prevent your house from rising in value over time? Does it make you a poorly informed real estate investor? Of course not. And you should think of your portfolio the same way. Personally, I check my mutual funds four times a year–no more, and no less.

How much trouble can you get into by obsessing over short-term price changes? Plenty. Recent research by a team of economists and psychologists compared allocations between one stock fund and one bond fund among two groups of investors: those who evaluate their portfolios monthly and those who look at their accounts once a year. The monthly group watched the stock fund heave up and down 12 times, while the yearly group saw it change only once, at year-end.

The monthly group, fixating on the interim volatility of the stock fund, moved money into the lower-earning bond fund; the yearly group stuck with the stock fund, ending up with twice as much money in equities. "The {investors} with the most data did the worst in terms of money earned," wrote researchers Richard Thaler, Amos Tversky, Daniel Kahneman and Alan Schwartz in the Quarterly Journal of Economics last year. The lesson: Stop checking your watch so often.

Investing is a marathon, not a sprint. Entremed, that little biotech company with the promising cancer cure, may well be the next Pfizer. But history shows that the company that comes up with a breakthrough is not always the one that profits. After all, the fax machine was pioneered by Western Union, commercial air travel by Pan Am, the VCR by Ampex and the personal computer by Commodore.

All of these innovative firms lost out to the copycat companies that followed them. That's why you should never rush to buy a stock "on the news"; if the breakthrough is that great, the company has years of growth to come, and you can take your time evaluating it. And that's where the press can come in handy.

Finally, remember the difference between the weather and the climate. On any given day, it can be warm and sunny or dark and rainy. But in the long run, the climate is more predictable. Investing is like that too: Just as June tends to be warmer than January and August sunnier than April, over longer periods investment fluctuations smooth themselves into more foreseeable patterns. Although the market news can be alarming on any day–or, as in the 1970s, awful for several years–over time it will turn more comforting as the value of your investments grows.

A Catechism of Economic Cliches

By Rob Norton and Trishia Welsh

Fortune, January 13 1997, Vol. 135, Issue 1

Make no mistake: When Journalists pen screeds about markets and the economy, trite phrases abound

We process a lot of financial and economic journalism here at FORTUNE. For starters, there's the stuff we write–page after page of it. Then there's the stuff we read: cubic yard upon cubic yard, arriving around the clock via E-mail, snail mail, and all modes in between. As we look back on each year's worth, a question suggests itself. Are there as many cliches in business journalism as we suspect? The answer: There are cliches aplenty. To wit:

How many economists agree with the journalist? Most economists.

What kind of economists agree with the journalist? Mainstream economists.

What words often precede a journalist's main thesis? "No one is suggesting that..."

What kind of men decline to be interviewed? Deeply private men.

Who will be affected by our failure to address whatever looming fiscal crisis is being written about? Our children and our children's children.

How do companies get higher returns? Companies rack up higher returns.

How do they get money? They rake in money.

Into what do they rake it? Into their coffers.

How do companies spend money? They shell it out, fork it over, or pony it up.

How do companies prepare for increased sales? They ramp up for increased sales.

How do sales decrease? Sales slump.

What kind of returns get written about? Eye-popping returns.

What kind of returns do good companies earn? Fat returns.

What kind of returns do bad companies earn? They earn pitiful returns.

What kind of moves do newsworthy companies make? Stunning moves.

What kind of wrinkles do journalists like best? New wrinkles.

How are agreements made? Agreements are struck or hammered out.

What about strategies? Strategies are mapped out.

What kind of tech stocks get written about? Highflying tech stocks.

Who are the most admirable investors? Sharp-eyed investors.

What do sharp-eyed investors do? Sharp-eyed investors clean up.

What kind of investors sell their stocks? Skittish investors.

What kind of spirits do investors possess? Animal spirits.

What wagon do investors climb onto? The bandwagon.

What kind of ride does the market take? A wild ride.

What kind of declines happen to markets? Steep declines.

Into what kind of funk does the market fall? Into a deep funk.

What's wrong with consumers? Consumers are strapped.

How do prices increase? Prices soar.

How else? They skyrocket.

How do they decrease? They plummet.

How else? They nose-dive.

Where is inflation these days? Inflation is nowhere to be seen.

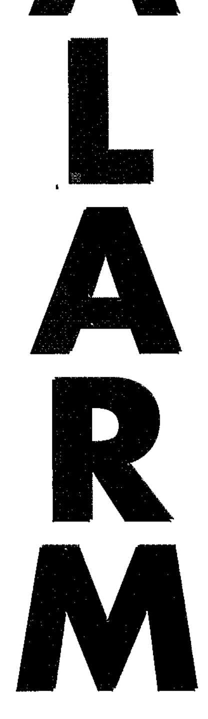
Where is the Fed? The Fed is on hold.

Between which two hazards must the Federal Reserve chairman steer the ship of monetary policy? Between the Scylla of inflation and the Charybdis of recession.

Will FORTUNE writers in general, or this writer in particular, use any of these cliches in the coming year? To be sure.

A number of business journalists wrote pieces spotlighting the questionable practices that would lead to the bursting of the nation's longest economic bubble. But even within their own news organizations, their insights were lost in a cacophony of naïve reportage.

IGNORING THE ALARM



By Charles Layton

Three years before Enron crumbled, and two years before the stock market hit the wall, BusinessWeek ran a cover story headlined "Corporate Earnings: Who Can You Trust?" Inside was a package of six stories, 16 pages of copy, explaining how corporations often overstated their earnings, auditors turned a blind eye, and Wall Street analysts had been bought off and compromised into compliance.

"Questions have begun to be raised about the integrity of the U.S. financial markets," reporter Sarah Bartlett wrote in an introduction. "It's the gnawing sense that companies...are regularly pushing the limit, accountants are AWOL, and analysts are too enmeshed with their investment-banking brethren to provide objective advice."

This hit the nail bang on the head—in October of 1998!

Long before the rapacious schemes of so many corporations came to light, and before Wall Street's duplicity became the stuff of subpoenas and congressional probes, here was BusinessWeek unmasking the whole scam, in language so forceful and clear a child could understand it.

Another early prophet was Michael Siconolfi of the Wall Street Journal. In 1997, he began exposing the way securities firms silently allocated hot new stocks, at artificially low prices, to the personal brokerage accounts of corporate executives, who then turned huge profits by "flipping" the stocks (that is, selling them at a higher price to people like you and me when the company goes public). It was, the Journal suggested, a way of bribing their best clients in order to keep their business.

Again, a bull's-eye—years ahead of its time.

Also in 1997, Anita Raghavan, another Journal reporter, wrote about "a new breed of Wall Street analyst," whose primary role was not to give unbiased advice about stocks, as the public is led to think, but to help their firms snag investment banking deals (such as assisting with mergers and stock offerings) with the very corporations they evaluated. This dual role, she wrote, is hard to police and fraught with potential conflicts of interest.

But if you really want to go back to the future, check out an August 27, 1995, story by David Hilzenrath in the Washington Post. More than six years before the Enron and Tyco scandals, Hilzenrath was writing this: "Many financial disasters—including corporate bankruptcies, fraud cases and the collapse of lending institutions—[have] developed under the noses of accountants." His topic wasn't crooked accounting per se; it was a financial mess in the Washington, D.C., government. But in the course of describing that, he also explained the basic conflict of interest that can keep an auditing firm from objecting when a company fiddles with its books: Auditing firms are paid by the companies they audit. They often do lucrative consulting work for those same companies. Why bite the hand that feeds them?

At a time when the country's financial system was rotten to its core, these stories and others like them should have been a wake-up call to the rest of the business press.

Only no one woke up.

Business journalists have been excoriated for their mind-blind behavior in the years leading up to the spring of 2000, when the longest market bubble in American history popped, and late 2001, when Enron's failure began a cascade of scandals: WorldCom. Arthur Andersen. Global Crossing. Tyco International. Adelphia. Qwest Communications. El Paso Corporation. MicroStrategy. Xerox. Dynegy. ImClone. Winstar. Merrill Lynch. Morgan Stanley. Salomon Smith Barney. Citigroup. Credit Suisse First Boston. Vivendi.

Orville Schell, dean of the Graduate School of Journalism at the University of California, Berkeley, wondered how virtually the entire press corps could have missed the fact "that so many of America's biggest corporations were financial houses of cards."

It was "one of the great journalistic failings in modern times," said Howard Kurtz of the Washington Post.

"We allowed Wall Street and these companies to lead us by the nose," said Martha Steffens, head of the University of Missouri's business journalism program.

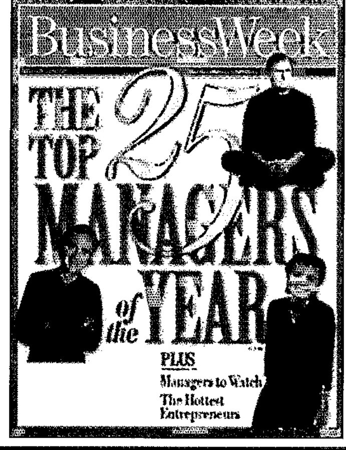
In an online chat at washingtonpost.com, an anonymous resident of Winnipeg, Manitoba, probably spoke for millions in declaring: "Rich and powerful groups *including* the media conspired to fleece the public." (The italics are mine.)

These judgments are not wrong. But they are not the whole story. The whole story is more mixed, and more troubling.

The problem with business coverage in the 1990s was not that journalists weren't smart enough to root out the corruption. Many corrupt practices lay near the surface, and some were being openly questioned, at least in general terms, by people like the Yale economist Robert Shiller, independent financial researcher Howard Schilit and Arthur Levitt, head of the Securities and Exchange Commission under President Clinton. Reading the coverage of the past half-decade, one is struck by how much certain reporters *did* uncover. But even within their own news organizations, their insights were lost in a cacophony of naïve reportage that reassured us the system was sound, analysts and auditors and CEOs were basically trustworthy, and the market boom might go on forever. Instead of probing the harsh realities, much of the business press fell back on gimmicky formulas, such as the use of lists and numbers as a reader come-on.

Magazine stories like "The 10 Hottest Stocks for the New Millennium" and "The 50 Most Powerful Women in American Business" were really not so different from their counterparts in other genres, such as women's magazines like Cosmo. Applied to business coverage, though, the numbers gimmick becomes a minefield. Reading some of those lists from two or three years back—Fortune's lists of "The World's Most Admired Companies," for example, or BusinessWeek's "The 25 Top Managers of the Year"—one finds them peppered with the names of companies that were soon to become infamous, either for business failures (Cisco, Lucent) or for alleged criminal activity (Tyco, Enron, WorldCom).

Gushing stories on such topics as "The 25 Top Managers of the Year" and fawning profiles of CEOs like Amazon.com's Jeff Bezos became media staples during the go-go '90s.



Another common formula was (and still is) the fawning CEO profile. These pieces became an infestation in the 1990s, and not just in the business press. Time magazine featured Jerry Yang, cofounder of Yahoo!, on its cover in 1998, with a six-page article inside that ended by suggesting that Time's readers ought to own Yahoo! stock. The following year, Time honored the top executive of Amazon.com, Jeff Bezos, as its Person of the Year. Weeks after that story ran, Amazon's stock began a slide that would take it from more than $100 a share to less than $20.

While BusinessWeek featured only one CEO from the Fortune 1,000 on its cover in all of 1981, by the year 2000 the number of such covers had risen to 18. The man who documented this trend is Rakesh Khurana of Harvard Business School, author of the 2002 book "Searching for a Corporate Savior." The purpose, Khurana argued, was to make business news more appealing by turn-

ORVILLE SCHELL, dean of the Graduate School of Journalism at the University of California, Berkeley, wondered how virtually the entire press corps could have missed the fact "that so many of America's biggest corporations were financial houses of cards."

ing CEOs into "a new category of American celebrity." The stories often dealt more with CEOs' "personal habits and attributes," he said, than with their companies' strategies or finances.

Business publications continued to wag their tails at Enron's top executives almost until the hour of that company's demise. According to several accounts, Fortune was about to put a group photo of "the smartest people we know" on the cover of its November 26, 2001, issue. One of those people was to be Kenneth Lay, chairman and CEO of Enron. But just as the magazine was going to press, the Enron scandal broke. Using photo-editing software, the editors hurriedly erased Lay. (Fortune Executive Editor Joseph Nocera declined to be interviewed for this article.) Enron declared bankruptcy days later, and in another two months Lay was pleading the Fifth Amendment.

Authors of irresponsible books also got a free media ride—authors who predicted, for instance, that the Dow Jones industrial average would eventually top 36,000 or 40,000 or maybe (what the hell) 100,000. David Elias, who wrote the book "Dow 40,000," boasts that he has appeared on CNBC, NBC's "Today," CNN's "Moneyline" and "Business Day," CNNfn, and public television's "Nightly Business Report" and has been quoted in Forbes, Fortune, the Wall Street Journal, Barron's, BusinessWeek and Chief Executive.

Another of these false prophets was Robert J. Froehlich, whose book "The Three Bears Are Dead!" maintained that the 1990s bull market would last into the 2010s. The Chicago Tribune once described Froehlich as being one of those gifted individuals with "eyes to see the dust in the distance, ears to hear the hoofbeats of the thundering herd, and noses to smell the money to be made." Besides being an analyst and spokesman for Zurich Scudder Investments, Froehlich is a television commentator. He is a regular guest cohost for CNBC and has been a frequent guest on CNNfn and Fox News.

after investigators released interoffice e-mails in which he had privately derided stocks he was recommending to the public, calling one "a dog" and another "a piece of crap."

In August 1999, Karen Southwick wrote in Forbes ASAP that market analysts at top Wall Street firms seemed to be dividing into two groups: "the media stars and the wannabes." To become a media star, she wrote, "it helps to get listed in Institutional Investor's annual tally of top-ranked analysts, but it's also important to appear on CNBC or get quoted by the Wall Street Journal...or TheStreet.com."

To promote themselves and the stocks they were selling, each major investment house tried to develop its own superstar analysts. They competed for exposure, especially on television, where the easiest path to glory was to go wild with optimism about the market. One young analyst, Walter Piecyk of PaineWebber, became a star overnight by predicting that the price of Qualcomm Inc. would go from $560 to $1,000. Although that didn't happen, just predicting it got Piecyk featured in some 85 articles and mentioned 11 times on TV, according to BusinessWeek.

In his 2000 book, "Irrational Exuberance," Yale's Shiller described the television phenomenon from his perspective. "I have over the years been called by newspeople asking me if I would be willing to make a statement in support of some extreme view," Shiller wrote. "When I declined, the next request would inevitably be to recommend another expert who *would* go on record in support of the position."

It is clear that during the market boom many trusting viewers bought stocks based on what they heard on television. According to Sy Harding, author of the book "Riding the Bear," when someone like Mary Meeker appeared on CNBC to promote her pet stocks, "those stocks would soar 20 percent or more in a day on heavy volume." Insiders took advantage of this bounce by selling after a favorable mention on TV tem-

Long before the Enron and Tyco scandals, the Washington Post's David Hilzenrath wrote about the conflict of interest that can keep an auditing firm from objecting when a company fiddles with its books.

Street." "It seemed that just about every time I turned on the TV, an analyst was being asked to name his top five picks. But viewers were never told that the analyst's employer likely was the investment banker for most, if not all, of the companies on his list of hot stocks."

Although Levitt knew he had no authority to regulate the media, in 1999 he asked his staff to talk to TV executives, to ask "for their advice on what type of disclosure would be meaningful for viewers, but not too onerous for the shows." Levitt said Fox News and CNNfn refused to meet with his representatives. The general counsel of CNBC and the executive producer of the PBS program "Wall Street Week" did meet with them, Levitt said, but "it was like pulling teeth. Neither official would even admit that investors were harmed by not knowing about the relationship between the companies the analysts were selling and the business those companies had given the analysts' firms." Levitt gave up after concluding that the executives saying: "Will anything slow down Cisco Systems Inc. and its supercharged CEO John T. Chambers? Not likely."

➠ *October 1999*: Cisco ranks eighth on Fortune magazine's list of the world's most admired companies.

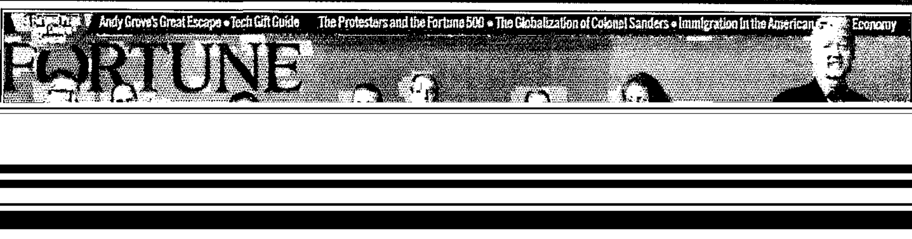
➠ *March 2000*: Based on its elevated stock price, Cisco passes Microsoft as the world's most valuable corporation, worth an incredible $555 billion, at least on paper.

➠ *May 2000*: Fortune writes that Chambers might well be "the world's greatest CEO." If a person could own just one company's stock, says the magazine, it ought to be Cisco's.

➠ *March 2001*: Facing a slump in demand for its products, Cisco fires 11 percent of its workforce.

➠ *May 2001*: Cisco has lost more than $400 billion in market value. Its stock is down 70 percent. Like a scorned lover, Fortune turns on Chambers, blaming him for the company's "mess" and charging that the beleaguered CEO

According to several accounts, Fortune was about to put a



match its research capabilities.

➡ *July 2000*: The company misses its revenue projections, sending a shudder through Wall Street. Its stock drops to $51, down from a high of $84.

➡ *February 2001*: Lucent says it is cooperating with an SEC investigation of improperly booked sales.

➡ *June 2001*: The stock continues to plummet. Investors have lost nearly a quarter of a trillion dollars over 19 months.

➡ *October 2002*: The company's workforce has been cut by more than 50 percent since the beginning of 2001. It announces plans to cut another 10,000 employees. Its stock falls to 58 cents.

There is something perversely satisfying in these little histories—so neat, so clean, so easy to compile. And they certainly give credence to the charge that a gullible press helped feed the market mania of the 1990s. What they don't reflect is the degree to which, throughout this time, the press was ignoring its own best reporting.

BusinessWeek, for instance, might expose the ethical conflicts of stock analysts in 1998. Then, in 1999, it would run a cover story saying, "When it comes to knowing companies, Wall Street stock analysts still hold sway." And then it would ask Mary Meeker to list her favorite stocks. In the spring of 2001, Fortune published one of the first skeptical stories about Enron, suggesting serious problems with the company's financial statements. Eight months later, it would be calling Enron's CEO one of "the smartest people we know."

In retrospect, this is hard to explain. The business press seemed born anew each day.

A good case study in this regard is the coverage of a stock analyst with the Dickensian name of Jack Grubman. Grubman, of the brokerage firm Salomon Smith Barney, is one of the most egregious examples of a Wall Street bad guy treated like a guru by the press.

One of his pet companies was Winstar Communications. Even after Winstar's stock had fallen from a high of $66.50 a share to less than $10, Grubman insisted it was really still worth $50. He didn't abandon that position until the day before the company filed for bankruptcy. By then its stock was at 14 cents a share. But while ordinary investors lost money, Salomon made a bundle through its investment banking business—helping Winstar sell $1.2 billion worth of junk bonds, for instance.

The National Association of Securities Dealers fined Salomon Smith Barney $5 million last year because of Grubman's "materially misleading" reports on Winstar.

Another of Grubman's strong buys was Qwest Communications, the dominant local phone company in 14 states. It has recently faced criminal and regulatory investigations over its accounting practices, as well as a shareholder lawsuit, and last year it barely avoided bankruptcy.

Grubman, who resigned from Salomon in August, also touted a string of companies that filed for bankruptcy. These included WorldCom (the largest American company ever to file for bankruptcy), Global Crossing, Metromedia Fiber Networks, McLeodUSA, Flag Telecom Holdings, Rhythms Netconnections and XO Communications. According to the New York Times, of the 25 largest bankruptcy filings in the United States, 10 were by companies recommended by Grubman. All of those 10 also had investment banking ties to Salomon.

WorldCom was Grubman's big favorite. He continued to recommend it until last April, when the firm's practices were under investigation by the SEC. In November, a special bankruptcy-court examiner's report criticized Grubman for promoting the stock. While Grubman urged investors to "load up the truck" with WorldCom, the report said, Salomon got $107 million for 23 deals with the company.

Business reporters turned frequently to Grubman as a source during the 1990s. Typical was a February 29, 1996, Wall Street Journal story that predicted great things for WorldCom and its cigar-chomping CEO, Bernard Ebbers. "WorldCom isn't yet a household name," said the Journal. "But that may change soon." The article's only named source was Grubman, whose word the writer appeared to accept without question.

This swallowing of an analyst's opinions without inquiring into his hidden agendas was standard practice throughout the 1990s.

That was so even after March 25, 1997, when the Journal's Anita Raghavan wrote that the "Chinese Wall" traditionally separating investment bankers (who sold services to companies) from research analysts (who evaluated stocks) had broken down. Now, she wrote, the main function of research analysts was to promote their firms' investment-banking business.

Raghavan cited Grubman as emblematic of the problem. She didn't accuse him of misusing his dual function; in fact, she remarked on "how skillfully he manages to walk the divide between banking and research." Still, in a perfect world the story might have bred a certain caution.

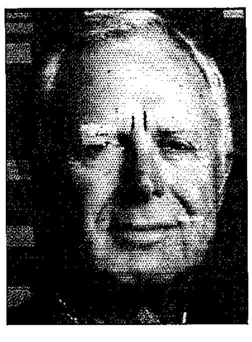
On May 18, 1998, the Journal's sister publication, Barron's, ran an extensive interview with Grubman, asking him to name his favorite stocks. "WorldCom is my favorite stock anywhere," the analyst said. "If I had to pick one telecom to own...this would be the one."

On June 12, 1998, Grubman turned up on "Wall $treet Week with Louis Rukeyser," advising viewers to invest in WorldCom. On June 15, the Dow Jones News Service dutifully passed along his opinion that "WorldCom was a good value."

These are just a few of Grubman's countless appearances on television and in the business press.

On October 5, 1998, BusinessWeek scored with its remarkably prescient exposure of corruption on Wall Street, including a full explanation of why analysts can't be trusted. A sidebar

"I have over the years been called by newspeople asking me if I would be willing to make a statement in support of some extreme view," Yale economist Robert Shiller says. "When I declined, the next request would inevitably be to recommend another expert who *would* go on record in support of the position."



Former SEC Chairman Arthur Levitt became concerned that TV networks were not telling viewers about the links between stock analysts they were airing and the stocks these "experts" were recommending.

on Grubman described him as a prime example of the problem and cited his close relationship with WorldCom and its CEO, Ebbers.

On August 12, 1998, the Times of London mentioned Grubman's conflict of interest in a $40 billion deal between WorldCom and MCI. The analyst's participation in this deal, it said, blurred "the borders between analyzing financial statements and acting as an investment banker."

By now, word was obviously out on Grubman.

Yet on June 7, 1999, Barron's published a discussion of telecom stocks by a three-person "panel of experts," one of whom was Grubman. Grubman praised three of his (doomed, as we now know) favorites—Global Crossing, Qwest Communications and Level 3 Communications—calling their stocks "turbo-charged." He also praised WorldCom and Ebbers. In words that ring with irony now, Grubman was quoted as saying, "If Bernie Ebbers hadn't run WorldCom over the past 10 years, I doubt it would be where it is today."

The Dow Jones News Service ran an item based on the Barron's piece, repeating Grubman's "turbo-charged" quote and his praise for the three companies' "aggressive management teams." And again, his conflicts of interest went unremarked.

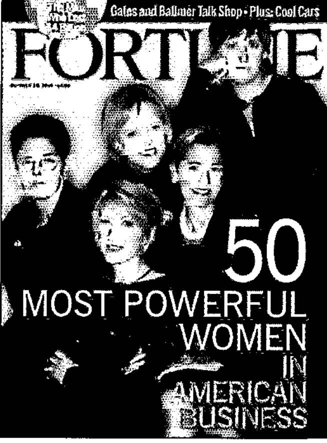
Week did an astonishing about-face on Grubman. It ran a long profile under the headline, "The Power Broker: From his Wall Street perch, Jack Grubman is reshaping telecom and stirring up controversy." This strange piece was so friendly toward Grubman as to constitute, if not a retraction, at least a major revision of the magazine's previous stance. Grubman was now described by one source as "almost a demigod."

The piece acknowledged most of the common complaints about Grubman, including his ties to WorldCom and other companies he praised to investors. But the writer seemed to feel that such conflicts didn't matter very much.

"Some academics and telecom industry insiders" considered Grubman's actions "nothing short of scandalous," the magazine granted. It gave a short account of how Grubman had changed his opinion on AT&T—the story that had been broken by the Wall Street Journal. "Some industry insiders suggest that Grubman may have reversed himself so that Salomon could get a slice of the [IPO] fees," the article said.

"But when it comes to Grubman," it went on, "it's far more complicated than that." Grubman

In the day, the business press coronated stock analyst Mary Meeker (top right in left cover) as "Queen of the 'Net." When it all fell apart, she became the human face of Wall Street's collapse.



This swallowing of an analyst's opinions without inquiring into his hidden agendas was standard practice throughout the 1990s. That was so even after the Wall Street Journal's Anita Raghavan wrote in 1997 that the main function of research

After that piece ran, Grubman was, to all appearances, back in BusinessWeek's good graces. As late as June 18, 2001, the magazine was still serving as a platform for Grubman to flog his stocks. It converted his sins into virtues, describing him as "a fanatical boxing fan and onetime amateur boxer [who] isn't afraid to lead with his chin."

"The analyst has been bloodied over the past year as many of his favorite stocks, notably WorldCom Inc., have been hammered," said BusinessWeek. "So what is Grubman recommending these days? Well, WorldCom again tops the list, putting him in the minority of Wall Street analysts who favor the stock. He also likes Qwest Communications International Inc. and

Global Crossing Ltd."

Enron, we didn't get Tyco, we didn't get WorldCom." One reason they didn't, he says, was that it's hard to discover fraud in a company without having an inside source. The magazine had such a source at Bausch & Lomb, he said, but not at Enron and the rest.

Another difficulty, in his view, is that the bull market muffled the impact of hard-edged stories, such as BusinessWeek's excellent 1998 exposé. "Nobody paid attention," he says. "In 1998, nobody gave a shit. The stock market was booming, and [critical stories] didn't gain any traction." Many journalists have told me this. Ron Insana, an anchor on CNBC, says that he and others at his network talked often on the air about the danger that the bubble might

burst. But in the midst of the longest bull mar-

lation. Will it all end badly?" But as the years passed and stock prices kept advancing, reporters and editors got tired of being burned

versities for special courses. More effective, though, according to Jill Dutt, the Post's assistant managing editor for financial news, is on-the-job

Money Makes Headlines in Today's News Coverage

advertisers pay a premium to run commercials."

Many news stories now amount to little more than human interest narratives about the glories and tribulations

that all the wealth of the world was originally purchased."

Years ago, National Public Radio initiated "NPR business updates" to supplement newscasts many times each

clarinet against a rhythm section of cash registers and ticker tape."

Back in 1989, business reporter David Cay Johnston, then at The Philadelphia Inquirer, told me: "The finan-

Monologues of mass media keep confronting viewers, listeners and readers with a demand that is frequently implicit: "How much are you worth?" The usual response provided to us: "Not enough."

At the same time, big money tilts reporting and punditry. On major networks, we rarely hear a strong voice speaking against the outsized power of large corporations. Yet there are a few cracks in the media walls. In recent years, Time has featured several muckraking cover stories about corporate influence and power that could hardly have pleased their targets. But the essence of propaganda, as any ad exec knows, is repetition. When certain stories and themes are repeated endlessly, the odds are stacked heavily against occasional muckraking journalism reverberating inside the national media's echo chamber.

Much of journalism now routinely wields monetary yardsticks. Even the most esteemed daily newspapers often cover cultural offerings by using dollar figures as overarching benchmarks, highlighting the financial earnings of various films, plays, books, paintings, CD's and music videos. The internalization of dollars as markers for human worth and artistic achievement has insidiously skewed how we view the meaning of culture and creativity. And the deep concern that Packard voiced many years ago is rendered silent, in part by the unwillingness of most American journalists to keep his question in mind. Yet it is a question that, if asked, would surely alter the steady drumbeat of today's reporting: "By encouraging people constantly to pursue the emblems of success, and by causing them to equate possessions with status, what are we doing to their emotions and their sense of values?" ■

Norman Solomon's weekly column on media and politics is distributed to newspapers by Creators Syndicate. His latest book is "The Habits of Highly Deceptive Media: Decoding Spin and Lies in Mainstream News" (Common Courage Press).

mediabeat@igc.org

The Watchdog Role Business Reporters Need to Play

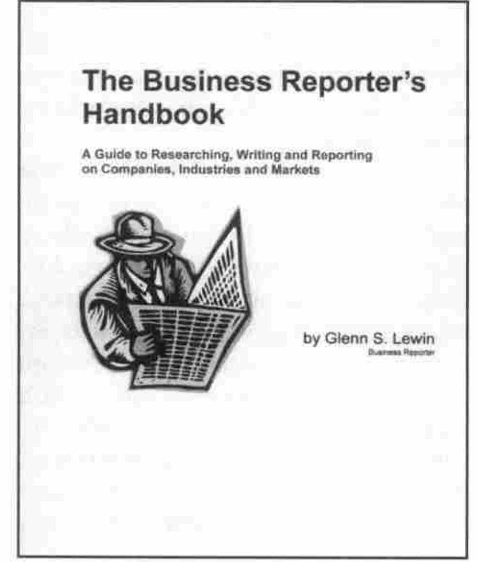
Journalists who cover business must prepare themselves for the job.

By Glenn S. Lewin

The most important role a journalist plays is that of watchdog, holding to account society's power brokers and rule-makers, those who control and influence our collective march to the future. And that's no less true for the business reporter than it is for the White House correspondent.

For too many years business coverage has taken a back seat in newsrooms, serving as journalism's "ugly stepchild." Business coverage had been a starting point for some, a temporary assignment for others, or a place to gracefully end a career. Political coverage was (and still is) perceived as sexy—charged with energy and intrigue. Business news coverage, however, was often regarded as drone work, boring to the reporter and of limited interest to the average reader. Over the past decade, however, media observers such as Howard Kurtz of The Washington Post have noted a change in attitude toward business coverage. Reporters have increasingly sought business beat assignments (in part because that's where the jobs are), and business-oriented stories are more likely to be found on the front page.

Despite this evolution in attitude, business coverage frequently lacks depth, understanding and context. A typical business report will dutifully relate a company's earnings-per-share number, but rarely challenge or even question the validity of that number, or provide to the reader the broader context in which that number resides. Furthermore, CEO's are rarely challenged as to the accuracy or veracity of their statements, and to verify claims and assertions can be difficult given the lack of access reporters often have to internal financial data.



Business executives, managers and owners are generally better educated about their world than are most of the journalists assigned to cover it. This imbalance puts reporters at a serious disadvantage and has an obviously negative impact on the depth and quality of coverage. The business pages of many papers (especially those serving smaller markets) are often little more than extensions of corporate PR departments. This constitutes nothing less than an abrogation of editorial respon-

sibility.

Understanding the intricacies of business, especially business as practiced by the multinationals, is not easy. And it's unrealistic to expect a reporter to have the same understanding of economics, finance, accounting and the capital markets as does a CEO with a Wharton MBA and 20 years' experience. However, somewhere between complete knowledge and absolute ignorance lies a middle ground of understanding that is attainable to any journalist willing to put in the time and effort.

The Executive Club

When a corporation issues an initial public offering and "goes public" (i.e., issues stock that is traded on the open market), there is—in theory—a tradeoff: The management of the company has access to capital through the open market system, but because the stock is now traded publicly the company is subjected to laws and regulations that do not apply to privately held businesses. In exchange for public investment, corporate executives are subject to oversight. Those engaged in such oversight include stock analysts, the Securities and Exchange Commission (SEC), fund managers, institutional investors, and public-interest advocacy groups. The theory is that publicly traded corporations are a trust and, because the public interest is at stake, actions and decisions affecting them are subject to review. That's the theory; the reality, as one might suspect, is quite different.

In corporate America there exists a club—the Executive Club. Its membership is based on position, power and control of corporate assets, resources and personnel, rather than on a golf handicap or bowling score. Members include board chairmen, CEO's, COO's, CFO's, CIO's and executive V.P.'s. Club members cumulatively form the executive management teams of corporate America, a separate and special class of people. Membership in the club is limited to a select group of people whose talents, skills and abilities have convinced existing members they have what it takes to lead a major business enterprise. Membership is based on a mix of talent, merit, pedigree, looks and personality. Club membership is highly prized because once one is selected everything changes, starting with compensation. An operating vice president employed by a major corporation may earn between $200,000 and $300,000 annually; but once that person is elevated to executive vice president, his or her income might easily approach one million dollars, and that is *before* stock options. Compensation for CEO's can exceed $10 million a year.

Another change is lifestyle. Executives never fly coach and rarely even fly business class, as most have fleets of corporate jets at their disposal. Additionally, the corporations they run are generous enough to provide them with country club memberships, free personal travel, and numerous other perks. Their children attend the best schools, and a typical executive family vacation might be to Scotland, Switzerland or Aruba, *not* Wisconsin Dells. Furthermore, boards of directors are populated with friends and associates of the executive management teams they are charged with directing. As a result, members of the club are—quite literally—able to write their own ticket in terms of how much they earn and the contractual conditions under which they work. In the real world, club members are seldom held accountable for their actions because controls put in place to deter corporate malfeasance often fail. The SEC is understaffed, and the objectivity of accountants, auditors and financial analysts has long been compromised.

This leaves the Fourth Estate as a last resort for the truth. The stakes can be high, as seen in the Enron failure, where thousands of Enron employees lost both their jobs and their retirement funds, while those in power cashed out in advance of the crash. Even though Enron was a high-profile player with political connections to both the Clinton and Bush administrations, there were only two publications that reached a national audience—Fortune, The Wall Street Journal, and U.S. News & World Report—that called into question Enron's market valuation and lofty stock price prior to its collapse.

Prior to the 1980's, when mergermania and the practice of "greenmailing" first brought market valuation and stock performance to the forefront of media and investor awareness, executive performance was measured in terms of profitability and the ability to manage assets. Under the old way of doing things, managers and executives had time to develop markets and build brands, and success was measured on performance over years, not months. The primary measure of a company's success today, however, is its earnings-per-share price, reflected in the closely watched performance of its stock. This is the magic number that most concerns both the investment community and members of the Executive Club.

In today's business climate it is not enough to be profitable. Investors demand growth from quarter-to-quarter, and the large institutional investors (who drive the market) will sell on a whim. Additionally, CEO compensation also includes substantial amounts of stock, so a few cents up or down in the share price can have a substantial impact on personal wealth. These realities put pressure on CEO's to do whatever it takes to pump up the stock. And "whatever it takes" may include accounting gimmickry or outright fraud. It is therefore incumbent upon the business journalist to understand this environment and the various tricks employed by business executives to hide the truth.

Getting Up to Speed

Journalists entering the profession today are better educated and prepared than their counterparts of even a few decades ago. The journalism schools housed in major universities graduate ambitious young people willing and able to do the research, investigation and writing required for success in the field. Unfortunately, too few of these students have even a rudimentary un-

derstanding of economics, accounting, math, statistics, the capital markets, or capitalism itself. This lack of knowledge renders them unprepared as business journalists.

Consider for a moment the preparation required for other news beats. One would reasonably expect a science reporter to understand the scientific method, the differences between the various scientific disciplines, the peer review process, and how science advances knowledge. Additionally, one would reasonably expect a legal correspondent to understand how the courts operate, how ideas are turned into laws, and the impact of major Supreme Court decisions on various groups within the society. One need not be a scientist to report on scientific advancements and issues, just as one need not be an attorney to understand and report on legal affairs. But in both cases one should have a solid understanding of the field. And the same holds true for reporters specializing in business coverage.

Getting up to speed is difficult and time consuming, but necessary. As both a business research specialist and investigative journalist, I have come to believe it's important for business reporters to know the following:

- **Accounting, mathematics and statistics.** Why? Because this is how business people communicate. Accounting is the process of recording, measuring, interpreting and communicating financial information to a variety of users, so it's important to understand its concepts and terminology. Similarly, financial managers make their forecasts and projections using mathematical formulas, and statistics are regularly used to argue positions and explain relationships among businesses, industries and markets.
- **How to read, understand and interpret financial statements, SEC filings, and annual reports.** Specifically, this means being able to review a balance sheet, profit and loss statement and cash flow statement, and to then make a determination on a company's financial health.
- **How capital markets operate.** Specifically, how companies are formed and financed, the difference between corporations, partnerships and sole proprietorships, and how a privately held company is able to take itself public. Money is the oil that lubricates the system; knowing how it flows is important.
- **How accounting and reporting tricks** are used to embellish corporate earnings, hide management mistakes, and defraud regulators and investors.

Making the Commitment and Taking First Steps

Short of pursuing an MBA or taking several business courses, how might a journalist obtain a solid business background? For starters, adopt the right frame of mind. Don't be intimidated by the math, statistics or accounting, and don't become mired in the minutiae. Remember: The objective is not to become an accountant, fund manager, or financial analyst, but to understand enough of their world so you are able to effectively question, challenge and follow-up. Stay focused on what's important; understand it will take time and that the learning process is ongoing.

When I started writing investigative pieces on business, I searched for a book that could help me sharpen my reporting and writing skills. While I found a number of good books about writing, research and investigative reporting, none described the process I engaged in with my reporting on business. So I set out to write "The Business Reporter's Handbook" for two reasons: First, the process of researching and writing forced me to deconstruct my job and think through the steps involved in developing and presenting business information and, second, I felt other journalists could benefit from what I learned.

Of course, not every reporter needs to write a book about this process in order to do a better job at this kind of reporting. But because of my experience doing just that, I can recommend benefits that come from reexamining the resources, process and skills that each of us brings to this job. What it leads to is a more solid understanding of the key business practices and strategies we must understand to function effectively as the eyes and ears of the public.

I also recommend that business reporters take an inventory of what they need to learn. To aid in that process, I offer some ideas in the handbook: Make a list of questions for the various subject areas and go after the information. Approach the process as you would any reporting assignment: Determine what you need to know and then work to obtain the answers. Start with accounting, math and statistics, since they are fundamental to all business operations.

In addition to reading about these and other topics, interview experts. Much of what I learned about accounting came from interviewing CPA's, corporate financial officers, and staff accountants. If pursued with an attitude of persistence and determination, reporters will be surprised at how quickly their own market value rises with their increased level of professionalism. ■

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Moving Toward the Mainstream

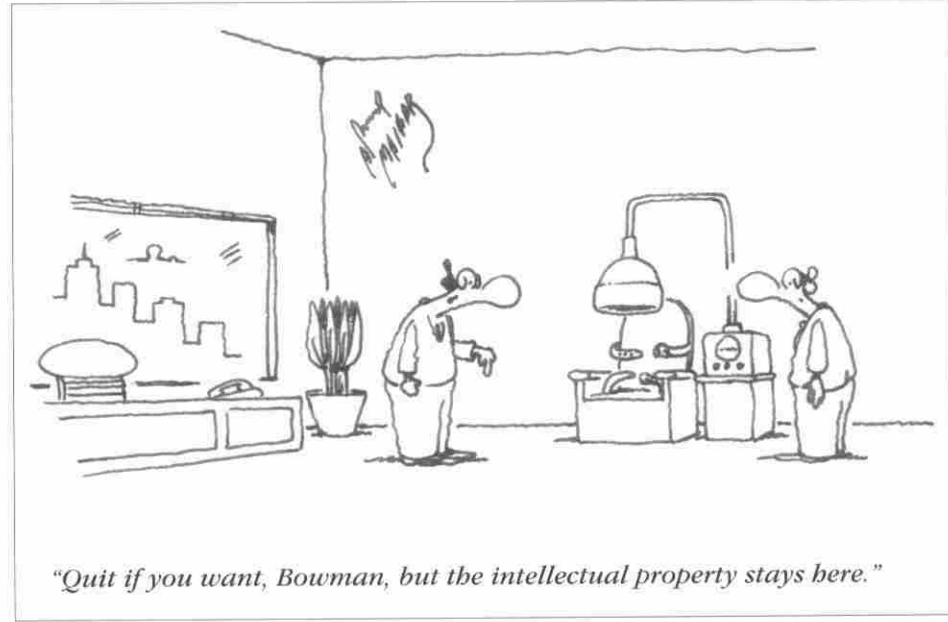
Economics and business reporting has increased in quantity and improved in quality.

By Robert J. Samuelson

The most important facts about business and economics coverage—and probably the most easily overlooked—are that there is a lot more of it now than there used to be and, almost certainly, it is better than it used to be. When I arrived at The Washington Post in early 1969, 18 months out of college, I was hired as a city reporter and asked, on showing up for work a couple of weeks later, to become a reporter in the business section. Unwilling to tell Ben Bradlee to shove it, I said yes and joined a staff of (as I recall) seven. There was the editor, Hobart Rowen, who covered some major breaking stories and also wrote a twice-weekly column; the local business editor, S. Oliver Goodman; the real estate editor, who put out a weekly section; two reporters, including me; a copy editor, and a copy boy.

Even that represented a huge expansion. When Bradlee moved from Newsweek in 1965, later bringing Rowen with him, the business section was Goodman, period. "Ollie wrote his [local business] column everyday, consisting of almost exclusively rewritten handouts, [and] then, as the market closed, went downstairs to lay in the agate [the agate type for the stock tables—this was before computerized listings]," recalls Bradlee. The Post's national staff did have one reporter, Frank Porter, who covered economic stories, including the budget and the Federal Reserve. Porter remained after Rowen arrived.

My beat included the Civil Aeronautics Board (which regulated the airline industry—it has since been eliminated), the Interstate Commerce Commission (which regulated railroads and trucks), and the Federal Communications Commission, as well as occasional national stories (for example, the monthly Consumer Price Index) and local stories. The other reporter had the Securities and Exchange Commission, the Federal Trade Commission, and the Federal Power Commission, plus the odd national and local stories. As far as I know, these agencies weren't covered on a full-time basis before Rowen.



"Quit if you want, Bowman, but the intellectual property stays here."

Cartoon by Scott Arthur Masear. Previously printed in the May 2002 Harvard Business Review.

As for the news "hole," my memory and Bradlee's coincide: no more than 10 to 12 columns a day on a then-eight column page. Converted to today's six-column page, that would be at most a page and a half. The business page was tucked behind the sports section. These parts of the paper were for men. And the front of the business section was not clean. It had advertising.

Let's fast forward. Jill Dutt, who now runs the Post's business section, has a news hole of about four pages a day (24 columns on a six-column format). On Sunday, it becomes six and one-third pages (38 columns). Her staff is 85, including 52 reporters and columnists (plus one contract columnist), 14 assignment editors (including Dutt), 13 copy editors and graphic designers, four news aides (successors to copy boys), one researcher, and one administrative aide. The section's front page is cleared of ads and is freestanding.

On quality, I do not think that the best reporters today are any better than the best reporters then. Rowen and Porter were first rate, as were Edwin L. Dale and Eileen Shanahan in The New York Times Washington bureau and Lee Cohn and Stephen Aug of the late Washington Star. But I think overall quality has improved for two reasons.

The first is sheer numbers. It's not just more stories and more variety. Greater numbers also mean more competition to dig for stories and more competition to improve writing. There are more chances for people to share new ideas, information and perspectives—and to learn from each other's strengths and, in theory, their mistakes. More does not always mean better. But in this case, I think it does, even though there is probably more frustration today with "getting in the paper." Thirty years ago, that was not a problem.

The second source of improvement is something I can't prove but think is true: On average, reporters are more qualified. When Bradlee asked me to join the business staff, he didn't know that I had any real interest in business and economics. Frankly, neither did I. My main ambition was to be a newspaper reporter. In college, I spent most of my time working on the paper and hadn't majored in economics, though I'd taken a few courses. The situation today seems different, as I discovered a few months ago.

At Newsweek, we have a superb and young general assignment reporter, Dan McGinn, who now writes many of the major economic stories. Dan is a gifted writer and reporter, but what has amazed me has been his almost-instant ability to grasp economic concepts that eluded me for years. On occasion, I have tried to help with brief tutorials. I was recently giving one on depreciation. Dan momentarily humored me and then said, "You don't have to explain depreciation. I was an undergraduate finance major and have an MBA." Oh.

Of course, not all young reporters have finance degrees or MBA's. Nor is there any substitute for learning by reporting. The basic skills of the craft apply here, as elsewhere. But what we do have today—and didn't have much of 30 years ago—are some young economic and business reporters who start with a basic knowledge of the language and concepts. This is a plus.

The point of recording all these pluses is not to celebrate or congratulate. It is simply to put matters in perspective—to keep a sense of history, which is not one of journalism's strong points. We have come a long way in the past 30 or 40 years. The transformation at the Post mirrors changes that occurred at many papers, magazines and even TV stations. Forty years ago, the business pages catered to a fairly small audience of investors and corporate managers, mostly men. The local business page was partly a service to local advertisers. It was an outlet for announcements for local companies.

Critical reporting was often conspicuous by its absence. Business reporters were far down the status ladder. They were often viewed as being not much better than corporate flacks. Economics reporters—people like Porter, Rowen and Dale—weren't so disparaged. Still, they were something of outcasts, seen as specialists dealing with esoteric and often murky matters.

Much of this is no longer true. The appetite for business and economic news has increased enormously during the past half century. Partly, this reflected the fact that the economy's performance—relative to what people had expected—began to deteriorate in the late 1960's. Economic problems occupied a larger and larger part of the national agenda. Inflation, unemployment, trade conflicts, and slow wage growth became permanent stories. But the rising demand for economic and business news transcended these developments.

People are better educated and wealthier. More are in positions to want or need—as managers and investors—business and economic information. Even in 1970, only 15 percent of Americans owned stock, which was up from the four percent in 1950. Today, the proportion is roughly half. In 1950, about 11 million workers in a labor force of 60 million were managers, professionals (including teachers), scientists and engineers; that was about 18 percent. By 2000, the comparable figures were roughly 41 million and 30 percent. And many more now are women. Finally, the consumer movement that burgeoned in the 1960's fed the demand for "news you can use," about everything from product defects to the best price discounts.

One good indicator of the effect of these changes is The Wall Street Journal's circulation. In early 1950, it had just passed 145,000; today it's about 1.8 million. If existing newspapers and magazines didn't satisfy these demands, then new publications (and, of course, cable TV) would—and, in fact, they did. Newspapers had to respond. As local business sections shed their disreputable role as a service for advertisers, newspaper editors came to apply—out of instinct and self-respect—general journalistic standards to stories.

None of this means that we've arrived in some sort of paradise. Many problems remain. Some of these are the routine problems of journalism: not being seduced by your sources; avoiding jargon and writing clearly; getting the facts right, and making connections that others miss. But there are also some larger issues. Let me mention just two that seem significant.

1. Business and economics reporting is still seen as a specialty, a little "out of the mainstream." In my experience—which, of course, is limited—most top editors still have a narrow understanding of and interest in economics and business stories. What do interest them are scandals, disasters, big political controversies, and acts of alleged and actual wrongdoing. These are big stories. Otherwise, economic and business news is often relegated to the business and financial sections and is treated as fairly parochial.

   By and large, reporters who don't cover business and economics don't know that much about either—which, of course, explains why, when some of these reporters become top editors, they have the same gaps. I've always thought more exchange between the business pages and the general news pages would be desirable. Early in their careers, many general reporters (including political, environmental and education reporters) could benefit from spending a year or two covering business. Similarly, business and economic reporters could benefit from spend-

ing a year or two covering other beats. I doubt this will soon happen, but it would be healthy if it did. Economics and business have always been a huge part of the nation's life and culture. Why they should be regarded as sideshows in the news business has always mystified me.

2. The press remains a sucker for fads and fashions, in business and economics as elsewhere. Journalists pride themselves for being fairly skeptical and critical, but the fact is that often we're not. We are always eager to enlist in the latest political, social and moral crusade, as well as to tout the newest intellectual theories and slogans—without quite understanding what we're promoting and the consequences of doing so. This is understandable, though hardly commendable. We're interested in what seems fresh, engaging, dramatic and unfamiliar. Unfortunately, our quest to be exciting often makes us misleading. We peddle simplicities and (sometimes) stupidities.

During the 1980's and early 1990's, I made a career of explaining why much of then-prevailing, heavily pessimistic wisdom was exaggerated or wrong. We were not "deindustrializing;" the "service economy" was more than fast-food joints and dry cleaners; living standards were not stagnating. The economy was stronger than portrayed. Since the late 1990's, I have similarly made a career of explaining why much of the new wisdom—the optimistic fluff—of the "new economy" was exaggerated or wrong. The Internet was not the greatest invention since the printing press; stock prices could get wildly overvalued; speculative "excesses" could hurt the "real" economy of production and jobs. The economy wasn't perfect.

The press bears some responsibility for the economic euphoria of the late 1990's and the exaggerated pessimism of the 1980's. We not only reflect the nation's mood swings; we help cause them. Our judgment (and by this I mean the judgment of top editors as much, if not more, than that of reporters) is sometimes poor. Trying not to be dull, at times we present selective realities that delude more than they inform. This is a constant problem that plagues all of journalism and for which I have no solution. Perhaps there is none. ■

Robert J. Samuelson writes a column for Newsweek and The Washington Post Writers Group. He began his career at The Washington Post in 1969, did a stint of freelance writing from 1973 to late 1976, when he joined the National Journal magazine as its economics correspondent. He began writing a weekly column at the Journal, which was picked up by the Post in 1977. He left the Journal for Newsweek in 1984. A collection of his columns was recently published by Random House as "Untruth: Why the Conventional Wisdom Is (Almost Always) Wrong."

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The Birth of 'The Outraged Investor'

A reporter assumes the watchdog role for 'the little guy.'

By Martha Smilgis

On March 10, 2000, the NASDAQ peaked at 5,048 before beginning its crash to smithereens. This rapid tumble taught both investors and reporters that there is far more to understanding the forces that move the market than the mere reporting of upward gyrations of various stocks. And it made me realize that even though I'd kept myself well informed by reading what I could about the market and its forces, what was happening to me—and I guessed millions like me—was not being covered. This awareness prompted me—who had once been a correspondent and writer for Time—to look for answers to what I wanted to know about the U.S. stock market and then publish what I found. In February 2001 "The Outraged Investor," my new newspaper column, was born out of my howls of pain as I witnessed my 401(k) funds wither to dust.

One of the first people to listen to my outrage was David Burgin, then the editor of The San Francisco Examiner. Though a novice at investing, when he heard the rancor coming from me as I talked about CNBC, brokerage houses, and stock analysts, he suggested I try my hand at a column. My first outpouring of rage, anguish and frustration touched a nerve in a lot of readers, prompting nearly 100 e-mails. Most were empathetic messages in which people shared their pain and anger and some lessons they'd learned.

Heartened by the public's response, "The Outraged Investor" continued to reveal some of the destructive market forces that afflict the "little guy," the kinds of things that the rest of the business media usually ignore. Or at least they did until Enron collapsed.

In my column, I often paint with broad brushstrokes of good and evil the characters that inhabit these stories. Doing this seems to help readers explore complicated trends and issues. The small investor is always a *good* citizen, someone who works hard, saves

nomic forces, repeating the "buy and hold" mantra endlessly. Long-term investors know that timing the market is critical—the key to success.

Many small investors are abandoning the market, prompted in part by not being able to find the information they need or to trust the information they find in the coverage of business and the market. Because free markets can't thrive under the yoke of excessive regulation, business journalists, acting as watchdogs, become *the* vital force necessary to keep the capitalist system on track.

What "The Outraged Investor" does is to play the watchdog role for the small investors, spotting scams and pyramid schemes and pointing out why the "big guys" are making money while they—the little guys—are losing ground. What I do is try to level the playing field by making some of the hidden traps more obvious. By doing this, my column nips at the heels of the stock market manipulators in the hope of showing the little guy how to make an honest gain. ■

Martha Smilgis was a writer and correspondent for Time and a bureau chief for People. Her column, "The Outraged Investor," appears weekly in The San Francisco Examiner and can be found online at www.examiner.com/investor.

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Economics and Business Journalism in Africa

Daunting issues challenge high quality reporting, but new initiatives support the determination of journalists to succeed.

By Nixon Kariithi

Economics and business journalism is one of the most vibrant sectors in the African media today. But its robustness can be easily subsumed by the continent's appetite for staid and strategic media coverage of what are momentous economic times. Because of this, Africa's financial media have only begun what will undoubtedly be a challenging quest.

Economics journalism might have existed in some African countries for nearly half a century, but its real roots can be traced to the protracted economic crises of the late 1970's and early 1980's. The failure of the World Bank-sponsored structural adjustment programs and the subsequent frantic search for alternatives catapulted economics into public discourse in many African countries. Initial coverage captured contesting economic voices, debating whether World Bank and International Monetary Fund (IMF) ideas were appropriate for Africa, and whether to adopt alternatives proposed by the United Nations Economic Commission for Africa. A decade later, a wind of democratic change sweeping across Africa and Eastern Europe ushered in the dimension of political competition and broadened opinion on the economy. As African nations embarked on their political transitions, the still fledgling economics media again kept pace, constantly advocating through their coverage the need to open up both the political and economic systems.

Improvement in economics and business journalism is also aligned with the growth of the continent's private economic sector. Not surprisingly, business journalism is relatively more developed in countries where private enterprise is flourishing. In South Africa, for example, the nation's highly developed private sector has fueled and buttressed growth of the Financial Mail weekly newsmagazine for more than four decades.

A similar claim cannot be made about the business press in the rest of the continent. For decades, government activity has dominated the economies in these countries. This has created large public sectors that lack the resources and luster of private enterprise that is necessary to support strong business growth and, in turn, a vigorous business press. For example, the Zambian Consolidated Copper Mines, state-owned until two years ago, accounts for more than half of the country's gross domestic product. Until about a decade ago in Ethiopia and Tanzania, the espousing of anti-capitalism ideologies boosted public sectors while stunting growth in the private sector. Yet such crowding out of the private sector hardly qualifies as a worst-case scenario: Nearly a dozen African countries are currently engulfed in or have just emerged from bloody civil wars that have crushed most economic activities. In most of these countries, economics and business journalism is virtually nonexistent as government propaganda and political news dominate the news agenda.

Stories about the national economy dominate economics and business reporting in most African countries. For many journalists, reporting such stories involves reviewing very technical policy documents, contacting tightlipped government sources, poring through dated government data, or visiting government projects. Where government authority is heavy-handed, the economics beat unravels slowly and in predictable, boring strands. Lately, representatives of the World

Bank and the IMF have become important alternative news sources in some countries, even though they are often just as inaccessible. Those who report on economics also rely heavily on tracking the actions and speeches of senior government officials.

One issue receiving a lot of attention these days is the economic liberalization and deregulation taking place in most African countries. From commodities to natural resource management, from civil service to health and education and legal enforcement, stories of economic liberalization are changing every day. Unfortunately, much of the coverage—not unlike what is happening in other places throughout the world—is reactive and lacks a well-defined, long-term strategy, even though the gravity of these economic changes is significant. Too often the media seem unwittingly to act as cheerleaders for "economic liberalization" without doing the tough reporting that examines its actual impact on various populations. And because it is heavily driven by personalities, the economic liberalization story is grievously erratic and episodic.

The economics beat, in general, lacks the sparkle that draws audiences or triggers public debates. Most business coverage across different media is disconcertingly similar, shallow and unquestioning, often because it is a reproduction of a press release or technical report. Too often, business reporters do not distinguish between personalities and issues, nor develop links between related macroeconomic events. When data are not forthcoming from government sources, key issues are underreported and under-analysed.

Even in those countries with larger private sector engagement, the business and finance beat shares these characteristics. A few major corporations dominate the private sector *and* the business pages, probably because they are also the largest advertisers. Indeed, in some situations business journalism is equated to reporting on what these corporations want reported; this can mean that the most mundane events receive prominent coverage. Financial journalism—especially personal finance issues—is scant and often limited to coverage of the minuscule stock exchanges in many of these countries. Much coverage has less to do with empowering people to make better financial decisions and more with assisting significant corporate players maintain a regular visibility in the press.

This gloomy picture must be understood against the backdrop of poor economic and financial reporting skills, unstable media entities with no guaranteed means of economic survival, poor work conditions, and the irresistible lure of better paying jobs in corporate communications. Indeed, many African economics editors have identified finding journalists trained in economics, business and financial writing as their most formidable challenge. Recent initiatives by the World Bank Institute, Reuters, Standard Bank Group, and the Financial Times of London that offer short introductory courses in economics reporting are welcomed, but a long-term training strategy is critical for substantive progress to be made.

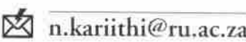
Probably the biggest investment in this regard is the endowment by Pearson Plc of the Pearson Chair of Economics Journalism at the Department of Journalism and Media Studies at Rhodes University, South Africa. Since assuming this position in 1999, I have initiated a network of about 160 economics editors in 35 African countries. The network meets annually to brainstorm on ways to improve economics and business coverage as a first step in long-term strategy to institutionalize economics journalism on the continent. The network already has a major online resource, African Economics Journalism Online. (AEJ Online can be found at http://journ.ru.ac.za/economics/aej.) This Web site endeavors to be a one-stop shop for journalists who are working on an African economics or business assignment. AEJ Online also showcases the published works of African economics journalists to the rest of the world. Plans are afoot to develop short courses as well as Africa's first masters' degree in economics journalism at Rhodes University.

Professional economics journalism associations have also been formed in many African countries. From Niger, Mali, Ghana and Nigeria to Uganda, Tanzania, Zambia, Mozambique and Namibia, economics writers associations are helping journalists improve coverage as well as develop general work guidelines that could later be translated into an ethics code. Developing an ethics code is critical, especially when one considers the bountiful coverage of major corporate entities and public personalities and the poor coverage of important economic issues such as poverty, unemployment and the epidemic of HIV and AIDS.

The appearance of these national and continent-wide initiatives is in response to a growing interest in economics issues in African newsrooms. This interest in more and better news reporting is linked to the growing recognition that the problems confounding Africa have economic dimensions and that finding solutions must include improving people's understanding and increasing their resolve. Also, it is well recognized that Africa is becoming better integrated, thanks to new communication technologies, commerce and education. And critically important is the appreciation of the role media play in engendering democratic and transparent governance.

These are all daunting issues, likely to make more difficult and complicated the job of reporting on economics and business by African journalists. However, among many economics and business journalists one finds determination to claim a prominent place in these dialogues about Africa's economic future. Slowly, they are getting there, one story at a time. ■

Nixon Kariithi is the Pearson Chair of Economics Journalism at the Department of Journalism and Media Studies, Rhodes University, South Africa. A former economics writer and editor in Nairobi, Kenya, he is co-author of "Untold stories: The State of Economics Journalism in Africa" to be published in 2003.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'City Slickers' in Perspective: the Daily Mirror, *its readers and their money, 1960–2000*

DILWYN PORTER, *University College Worcester*

On Wednesdays the thoughts of *Daily Mirror* readers turn to money. A weekly feature, 'Mirror Money', sometimes running to eight pages, sits at the very heart of the newspaper. It exhibits the key characteristics of contemporary popular financial journalism. The edition published on 26 January 2000 was fairly typical. John Husband, the *Mirror*'s City editor, was identified at the top of the first page of what was, in effect, a weekly financial supplement. 'HERE'S TO A BONNY Y2K' ran the headline over his by-lined article, alongside an appealing colour photograph of a baby. The approach was brisk and businesslike: 'Let's kick off with our nine-point plan to get your finances in order.' Stories were heavily personalized. Another article by Husband in the same issue, designed to alert readers to the advantages of the tax-free Individual Savings Account (ISA), featured Maureen Millward, 24, from Bolton, a recently promoted process analyst working for Kelloggs, who had 'stepped up her savings with a shares ISA'. There was also a celebrity angle supplied by Andy Robinson, former England rugby international, who had done rather well with an ISA managed by Jupiter. A nice balance was struck between championing the interests of *Mirror* readers and alerting them to investment opportunities. 'Our campaign to ban endowment mortgages is gathering pace', it was claimed, on reports that Lloyds TSB, NatWest and Barclays were dropping this controversial financial product. Elsewhere a stockbroker, Justin Urquhart Stewart, advised readers to buy shares in Kingfisher, the UK's largest non-food retailer. Three years later, despite the dramatic transformation in the investment climate since 2000, the 'Mirror Money' formula remains largely unchanged.

But the *Mirror*'s financial coverage at the millennium was not confined to Wednesday's centre pages. Apart from intermittent stories supplied by Husband and others for the news columns, the paper offered a page of City news and comment each day. From May 1998 to February 2000, when it was replaced by the relatively sober 'Financial Mirror', this was the domain of the 'City Slickers', Anil Bhoyrul and James Hipwell, the latter pictured replete with red braces, who relayed share tips and insider gossip, urging *Mirror* readers to 'pile in'. A short item published on 7 April 1999 is indicative of their style.

> Slicker hears that Monument Oil & Gas could soon be taken over … Our friends in the City think so too, and have pushed up the shares 5p to 47p. It's not too late to get in—they could go to 60p soon.

The implications were clear: Bhoyrul and Hipwell were on familiar terms with insiders, with people who counted. As far as stocks and shares were concerned they were 'in the know' and well placed to supply readers with information that would enable them to give

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the City gents a run for their money. On 11 February 2000, with the techMARK-100 index reaching heights that conventional market wisdom suggested could not be long sustained, the Slickers reflected in characteristically gung-ho fashion on their ability to pick winners in the new technology sector.

> SLICKERS SAY: We've been banging on about these companies for 18 months and anyone who has followed our advice has done very well—despite what the moronic *Sun* and newspaper for bores, *The Guardian*, say.

Anticipating the downward adjustment that was to take place shortly afterwards they continued to exude confidence, predicting that any correction would be 'a minor blip not a market crash'. In the very short term, as indicated in an earlier version of this article, written in July 2000, this proved correct, though any reader holding on to shares bought on their advice at the height of the dot.com boom would since have had good cause to question their judgement [1]. It soon became clear, however, that there were other causes for concern relating to the *Mirror*'s City Slickers. The most important of these was their apparent disregard for those provisions of the Press Complaints Commission (PCC) Code of Practice that were designed 'to ensure that readers receive disinterested advice and information and that (financial) journalists and those connected with them do not profit as a result of publication' [2].

The *Mirror*'s financial coverage thus stood at a point where old-style City journalism, first featured during the nineteenth century as a daily 'money article' written by a specialist 'City editor', merged with the tradition of popular journalism derived from Alfred Harmsworth's *Daily Mail* of 1896. The intention here is to set 'Mirror Money' and 'City Slickers' in this wider historical context. At the same time the burden of responsibility falling on the shoulders of journalists who write about money for a relatively unsophisticated audience will be explored. Financial journalists, as any reading of the *Mirror* confirms, do not merely report and comment; they also advise people on what to do with their money. This brings expert journalists and inexpert readers into a special relationship which, as far as the *Mirror* is concerned, had been developing since Derek Dale became its first post-war City editor in March 1960. Dale's brief was 'to give guidance' and 'to translate the jargon of the City into language that all will understand' (4 March 1960). His successors, Robert Head and John Husband, appeared to take the same view of the City editor's role. In the late 1990s, 'City Slickers', the *Mirror*'s first venture into what has been called the 'fill your boots' style of financial journalism, seemed to break with this combination of accessibility and prudence. After he had been dismissed in February 2000, Bhoyrul recalled that when he and Hipwell had first joined the *Mirror*, the editor, Piers Morgan, 'told us the opportunity was there to reinvent business journalism and I think we did that' [3]. The outcome of a subsequent PCC adjudication, indicating a number of instances in which its code had been breached, suggested that this reinvention, if that is what it was, was highly problematic. A preliminary assessment of the Slickers and their niche in the history of the popular press seems justified.

Popular Financial Journalism Before 1960 [4]

For much of the nineteenth century the 'money article', though featuring in most daily newspapers, represented journalism at its dullest and least enterprising. It often amounted to little more than a list in paragraph form indicating the movement of prices on the various London markets. In the second half of the century there was an expansion in the

supply of useful financial intelligence stimulated by the advent of international cable communications and the proliferation of limited liability companies. At the same time the growth of Britain's financial sector and the emergence of a significant number of private investors generated demand for news from and comment on the markets. These developments prompted a transformation of financial journalism starting with the imported 'Yankee bounce' of Harry Marks' *Financial News* in 1884. Over the next 20 years or so 'New Financial Journalism' began to prevail over what the *News* called 'eighteen-hundred-and-fast-asleep conservatism of the old school' [5]. The aim, apart from supplying a more rapid and efficient news service for people who were 'something in the City', was to reach out to the increasing number of private investors, many of whom were of relatively modest means. One estimate put their number at around 250,000 by 1906. It was the duty of the 'new financial journalist', according to Charles Duguid, later City editor of the *Daily Mail*, 'to make the dry bones of finance live' for the City clerks, country clergymen, retired colonels and small shopkeepers who now took an interest in stocks and shares [6].

The conventions of New Financial Journalism, at once more relaxed and more demanding, were important when it came to writing about finance in the popular press after the 1890s. Newspapers like the *Daily Mail* (1896), the *Daily Express* (1900), the *Daily Mirror* (1903) and the *Daily Sketch* (1909) featured financial news from the start, not least because it helped to attract company advertising in the form of prospectuses for new share issues and reports of annual general meetings. Though it was often difficult to enliven reports from the City, especially when the markets were uneventful, the lighter tone and more attractive layout that Marks had brought back from New York in the 1880s were readily assimilated into the popular format. 'By reason of its very nature', admitted Duguid in 1903, 'the City page may always be the dullest and most forbidding … but it is rapidly becoming less so' [7]. The most important development, however, in terms of making financial news and comment accessible to a wider readership, was an acknowledgement of the idea that, in this respect, the function of a newspaper was not simply to inform readers but also to advise them. This meant building a relationship of trust with readers who often knew little about investment and were at risk in the shark-infested waters of the City of London. The *Daily Mail*'s first City editor promised 'to interpose between the inexperienced and the loss of their money' and urged readers 'to get in the way of asking our advice before they act' [8].

In this situation it was critical, if financial journalism was to secure its place in the popular press, that *bona fide* journalists and papers should find ways of keeping the rackety side of City life at bay. It was clear by this time that not every City editor and financial journalist was devoted selflessly to the pursuit of truth. One by-product of stock market booms in the late Victorian era was the emergence of the so-called 'bucket-shop press', an illegitimate parody of respectable financial journalism. Seductively entitled weekly and monthly circulars, such as the *Oracle*, the *Financial Who's Who?* and the *Golden Age*, were used by unscrupulous brokers and company promoters to sell worthless securities at a premium to readers with more money than sense. This nuisance persisted until 1939 when the Prevention of Frauds (Investment) Act gave the City of London Police the powers it required to bring the worst excesses of the 'bucketeers' to an end [9]. There were, in addition, endless opportunities for financial journalists to turn a dishonest penny or two simply because the price of a particular security might be driven up or down as a consequence of what appeared in the press. City editors grew wise to the peculiar sensitivities attached to the practice of their craft and journalists who wrote about stocks and shares in the press would certainly have been

aware of an ethical dimension to their work [10]. The journalist determined 'to write his own book', seeking to inflate the price of shares he wanted to sell or to deflate the price of shares he wanted to buy, remained something of a problem. A growing sense of professionalism, however, appears to have kept this tendency in check and over the course of the twentieth century readers came to trust the integrity of the experts who brought them news from the City or advised on finance generally. The financial journalist, as Paul Bareau, then editor of the *Statist*, observed in the 1960s, was 'always in a position in which he could profit by speculative operations based on the views he expounds'. From time to time some had failed to maintain the required standard of integrity; 'they have been the very rare exception' [11].

The New Financial Journalism, progressively adapted to fit in with changes in the layout and house-style of the more popular dailies, shaped the development of financial journalism at this level through to the late 1950s. Middle-market titles, like the *Mail*, the *Express* and the *News Chronicle*, with a significantly higher proportion of small investors in stock market securities among their readers than the *Mirror* and the *Sketch*, gave City editors more scope to be innovative in terms of style and presentation. By the end of the 1930s headlines had become more arresting, economic analysis more accessible, market reporting more concise and share tipping more blatant and ubiquitous. As the convention of anonymity was progressively abandoned a City editor, like Oscar Hobson at the *News Chronicle*, could become a newspaper personality in his own right, developing a distinctive style and rhetoric. Financial journalism was less important in the more downmarket titles and it changed more slowly. Typically, in the *Daily Mirror* of the late 1930s, a six-paragraph article by 'Our City Editor' would appear at page 24 or thereabouts along with a selection of Stock Exchange closing prices. This would take up less than half the space on a page that was often shared with racing news and selections supplied by 'Bouverie', the paper's resident tipster. The uneven distribution of personal wealth among the readerships of the various newspapers probably constrained the development of the *Mirror*'s money article in this period. Its City coverage was one of the first casualties of war in 1939. In a newspaper bought by countless small savers but few small investors this was only to be expected. As war transformed news values virtually overnight it was enough to advise readers facing an uncertain future: 'LOOK AFTER YOUR SAVINGS BOOKS' (6 September 1939).

'Keeping Up with the Joneses': post-war affluence and the money page

The apocryphal 1930s story about the clerk on a weekly wage of £5 retiring with £5000 in the bank is relevant here. His enviable position could be accounted for, it seemed, by a lifetime of thrift and sobriety and his wife's prudent housekeeping. And, oh yes, … an aunt had died recently and left him £4957 [12]. The chances of a clerk or a manual worker amassing a significant lump sum for investment were slim. Even though average real incomes were rising in the inter-war period there was often little to fall back on when the proverbial rainy day arrived. By 1960, when the *Daily Mirror* resurrected regular and systematic coverage of City affairs for the first time since 1939, 15 years of full employment and rising real incomes had transformed this situation. This had fuelled an unprecedented boom in consumption in the late 1950s as goods once categorized as luxuries—cars, televisions, refrigerators and washing machines—became more affordable. As a recent historian of consumption has observed: 'In the long haul from poverty to affluence, this was the great leap forward' [13]. Financial institutions, with unit trusts like M&G and Save and Prosper to the fore, competed vigorously to attract the attention

and savings of the newly affluent worker. The expansion of financial product advertising in the press created a greater incentive for newspapers to address readers as potential investors. In this new climate popular financial journalism 'provided a sympathetic editorial background to the financial institutions' campaigns to tap the growing savings of the nation' [14].

Adjustment to the new conditions of affluence was easier for newspapers that leaned politically to the right. But the left-of-centre *Mirror*, selling around 4.5 million copies each day, was the UK's largest circulation newspaper by a considerable margin and especially well placed to assist financial institutions anxious to establish market share among working-class savers. The absence of City coverage after 1945 suggested editorial acquiescence in the notion that stocks and shares were not for the likes of those that read the *Mirror*. 'IF I HAD A FORTUNE', a feature based on readers' letters in 1950, was indicative.

> Thirty thousand pounds! (wrote Mrs B. of Wealdstone) I should be scared stiff if I had half that. I don't think I could sleep or eat. What a worry! No, just give me father's fiver on Fridays as always and I'll be satisfied. [15]

But, by the end of the 1950s, even the Labour Party was beginning to recognize that something had changed. 'Daily newspapers', noted the Labour Research Department in 1959, 'devote considerable space to news from the City and recently there has been a lot of talk about "encouraging the small investor" and "creating a shareholder's democracy"' [16]. The *Mirror*, competing daily for circulation and advertising revenue with newspapers that were already cultivating the small shareholder, did not simply acknowledge the significant socio-economic shift that had occurred; it embraced it with enthusiasm. On 4 March 1960 the decision to appoint Derek Dale as City editor to write every Wednesday about stocks and shares was explained thus:

> The Mirror recognises that there has been a revolution in the savings habits of Britain. No longer is The City the exclusive domain of Big Money.

Press commentators were quick to recognize the significance of the *Mirror*'s new commitment to financial journalism. Granada's influential *What the Papers Say*, according to a report in the *Mirror*, attributed it to 'the evidence that more and more people, many of them factory workers and clerks, are buying stocks and shares' (11 March 1960). Perhaps the most novel aspect of the *Mirror*'s coverage was the use of a strip cartoon, 'Keeping Up with the Joneses', featuring a married couple, 'Joe and Prudence Hope', and their self-appointed financial adviser, 'Uncle Forsyte'. Its first appearance so soon after the departure of the scantily attired 'Jane', so popular with the *Mirror*'s readers in the armed forces during the Second World War, seemed to suggest the passing of an era. The coincidence, according to Paul Bareau, was 'highly significant given the faithful reflection of popular taste which that newspaper provides' [17].

Dale's weekly feature, simply headed 'Stocks and Shares', spread over three or four columns in the *Mirror*'s centre pages. Readers were drawn in by a headline leading them into Dale's opening paragraph. This often consisted of advice for the inexperienced or nervous small investor delivered in plain words and short sentences. News that a falling stock market had prompted some small investors to cash in prompted the headline 'MY ADVICE TO UNIT-TRUSTERS—*DON'T SELL*', and a string of supporting points. 'Far from thinking of selling, the sensible unit trust investor should be BUYING at the present moment' (11 May 1960). Company news, wherever possible, had a human-interest angle. A story offering readers 'A PEEP INSIDE BOSSES' PAY PACKETS' focused on Frederick Donner, chair of General Motors (owners of Vauxhall), whose

salary, calculated at £3800 a week, was 5 times more than President Eisenhower's and 20 times more than Prime Minister Harold Macmillan's. It was a mark of Dale's confidence in the moderation of the newly affluent British worker that he felt able to advance a case for reducing taxes on high earnings in order to retain the services of 'the men who make British industry tick'. Acknowledging that 'the chap earning £8 a week won't have much sympathy for the "plight" of a top director earning £8,000' he argued, nevertheless, that 'it is the workers who suffer if inferior men are making decisions at the top' (25 May 1960). Some £8-a-week *Mirror* readers might have allowed themselves to be distracted at this point by the large photograph of pop star Adam Faith's first screen kiss on the adjacent page.

Dale did not 'talk down' to his readers but he sensed that many of them required some fairly basic information. An article headed 'HOW TO SHOP FOR YOUR SHARES' explained how the Stock Exchange worked and advised readers who had not bought shares before on how to get in touch with a stockbroker (18 May 1960). A particular strength of Dale's journalism was his ability to make links between the remote science of investment and the everyday experience of *Mirror* readers. His very first article incorporated an item headed 'Nothing Like a Cuppa' recommending Brooke Bond shares at 15 shillings as 'a first class investment for the man, or woman, prepared to buy—and hold' (9 March 1960).

> Here goes your first lesson in investment.
> DON'T TRY TO BE TOO CLEVER.
> There is always a profit to be made from the thing that is fundamental.
> And there is nothing more basic to the national character than—a 'cuppa'.

A few weeks later the thought that many readers had spent Easter Monday 'getting stuck in to the back lawn with a mower' prompted a plug for Qualcast.

> The Englishman's pride is his lawn … The average life of a lawn-mower is ten years. Five million lawns—a new mower every ten years—that means a market for 500,000 lawn-mowers a year.
> And the biggest part of that business goes to Qualcast of Derby—the largest manufacturer of lawn-mowers in the world …

It was important to demystify finance, to convince *Mirror* readers, male and female, that the City was for them. An item in the same edition on the Thomas Tilling Group, makers of Pyrex and Pretty Polly nylons, pointed out that it had more women than men shareholders. 'Women are shrewd investors and I endorse their faith in the Tilling company' (20 April 1960).

The *Mirror* went to some lengths to promote an active two-way relationship between its City editor and his readers. Part of Dale's article each week, 'You Ask', was devoted to answering queries. Simultaneously the *Mirror* established an Advice Bureau: 'Whatever the amount—whatever the problem—we will do our best to help you.' Readers were assured that experts would answer letters 'in language you can understand' (16 March 1960). By 1968 the bureau was dealing with almost 25,000 letters a year [18]. There was a link here with mainstream financial journalism where it was a long-established tradition for City editors to give investment advice to individual readers. The *Financial News* of the 1880s found space daily to publish 'Answers to Correspondents' and had invited readers who sought a personal reply from the editor to apply enclosing a postal order for 2s. 6d. Though some published queries were undoubtedly spurious and the advice given not always disinterested the idea caught on; both the *Mail* and the

Express at the turn of the century had encouraged readers to write to the City editor. The free service offered by the *Mirror* after 1960 helped to keep successive City editors and their staff in touch with the everyday concerns of readers in so far as they related to money. Financial journalism in the *Mirror* has been shaped by a sharp awareness of the particular concerns and interests of its predominantly working-class readership. 'The *Daily Mirror*', it was noted in a review of financial journalism in the 1960s, 'remembering its sense of responsibility to the masses, is rather reminiscent of Dorothy Dix and those other columnists famous for emotional problems'. Not only was news and advice conveyed in simple language, there was also 'a strong sense of guardianship of the purses of the readers' [19].

Building a Relationship with the Reader

Changes to the title of the *Mirror*'s money article over the 20 years from 1960 suggest that the relationship between City editor and readers became closer. Dale's original 'Stocks and Shares' was replaced in the mid-1960s with Robert Head's 'In the City'. By 1970 Head was writing about 'Your Money'. Under both Dale and Head the coverage was largely City focused with company news predominating, though Head was more inclined to discuss financial policy and the economic situation in general. Given the limitations of space it seems significant that so many of the companies Head chose to write about had a news value that was quite independent of their standing in the City. On 5 March 1965, for example, he opened his article on page 19 with an item headed 'NORTHERN SONGS HIT A LOW NOTE', reporting that shares in Brian Epstein's company, the Beatles' music publishers, had slumped. 'You just can't get away from those Beatles', he wrote. 'While they soak up the Bahamas sunshine with Donald Zec (the *Mirror*'s show business correspondent) … I report that back in the City a chill is cast over their fortunes.' Head also continued Dale's practice of alerting readers to shares in companies that they would encounter in the High Street. 'Next time you are in Marks and Spencer's', he advised, 'have a look at their fruit squashes'; he then went on to recommend buying shares in the firm that made the plastic bottles in which the squash was sold. 'At 9s 6d each … the shares look interesting' (9 March 1965).

These methods may well have helped to attract the attention of readers as they grazed their way through the multifarious feast provided daily by the *Mirror* and underlined the message that the small investor had every right to be in stocks and shares. When Oliver Stutchbury, managing director of Save and Prosper, declared in 1965 that nobody with less than £20,000 should open a personal portfolio, Head mounted a vigorous defence of the little guy who wanted to 'think big' rather than 'play it safe'. What about Nicholas Harvalis, a humble soda-jerk from Omaha, Nebraska, who had studied the financial papers in his local public library and invested every spare cent in shares? Hadn't he been worth more than $160,000 when he died in 1950? And, closer to home, there was Ron Regan, a Portsmouth dock labourer, who had amassed £10,000 since the war by backing his own judgement (9 March 1965). This tendency was counterbalanced by Head's recognition that saving for a deposit on a house was likely to be a more pressing concern for many of his readers. Here he had nothing to offer but blood, toil, tears and sweat. 'Dogged month-by-month saving is the only way', he warned, but '*where* you save is vital'. He went on to explain patiently that an account with a building society was preferable to a biscuit tin when it came to finding a safe place for hard-earned savings (3 March 1965).

By the 1970s the emphasis was changing. 'Your Money' now often appeared more than once a week and its focus began to shift from the City to more mundane preoccupations. At the start of the decade City news predominated; it was very much the first duty of the City editor to explain 'How Prices are Moving' and to offer some explanation for the state of the market. 'Shares started the week with a bang … mainly because an outfit called the National Institute of Economic and Social Research has called on the Government to pump some more inflation back into the economy' (3 March 1970). Some traces of the speculative fever of the late 1960s survived but Head was not slow to remind readers that City punters who chose to ride on the back of the Australian nickel boom that it would eventually collapse. Shares in Tasminex, 'which boomed to £45 a month ago when workmen digging a cellar nearby claimed to have found nickel were looking very tarnished yesterday' (4 March 1970). With the company's shares then standing at just over £3 it seemed that little had changed since the late nineteenth century when the City's definition of a gold mine had been 'a hole in the ground owned by a liar'.

After the watershed year of 1973, when an economy already overheating as a result of Anthony Barber's expansionist budget of 1971 was subjected to the massive external shock of rising oil prices, there was a change of tone. With inflation running at 25% by the end of 1975 and the IMF knocking at the door the *Mirror*'s financial coverage reflected the prevailing gloom. 'Your Money' was now set in a broader editorial context where features on the stretched budgets of working-class families were commonplace. 'YOUR SHRINKING POUND' (10 March 1975), focusing on the Attewell family from Barking, was fairly typical.

> On paper, the Attewell family are better off than a year ago. Their income has gone up by more than their household expenses.
> That is in line with Government figures which show average earnings up 29 per cent and the cost of living up by just 20 per cent.
> But statistics seldom tell the full story …

The full story was that Barry's overtime had been cut, thus the Attewells 'had to make changes in their lifestyle—just to keep pace with inflation'. With unemployment levels reaching over 1 million for the first time in the post-war era the activities of movers and shakers in the golden square mile probably seemed increasingly remote and irrelevant as far as many *Mirror* readers were concerned. Some contemporary observers perceived a gaping chasm that would have made life especially difficult for the City editor of a popular left-of-centre tabloid. Unemployment touched 1 million in January 1972, the first time it had reached that level in the post-war era. It seemed odd, when these figures were announced, that the *Financial Times* ordinary share index should surge to 500, its highest point for 3 years. 'The otherwise arid statistics seemed to say a lot about how important values within a capitalist society tend to diverge' [20].

Though share prices collapsed for a time in the mid-1970s, those who had wealth were still better placed to protect their capital than most *Mirror* readers. Inflation might have been, as Home Secretary Roy Jenkins argued in 1975, 'Britain's greatest menace since Hitler' but it was not so bad if one could afford to invest in Krugerrands. These could be stashed away in order to avoid Denis Healey's projected Wealth Tax. Writing in March 1975, Head reported 'strong demand for gold coins' along with the intelligence, derived from the manufacturers, that 'private people are buying more safes'. He assumed that readers of 'Your Money', who had every reason to be concerned by the erosion of their own small savings, would make the connection, especially when the interest on

building society accounts was subject to a 7.5% ceiling (7 March 1975). In the meantime the Dorothy Dix side of *Mirror* financial journalism came to the fore with an emphasis on the advantages of inflation-proofed securities, like 'Granny Bonds', available to old-age pensioners, and on explaining the real cost of personal loans touted by finance companies. 'Some people may be happy to borrow money at 42 per cent ... But I still urge you to think three times before doing so' (4 March 1975). As economic policy issues came to dominate the political agenda Head's skill in exposition was often utilized in general news coverage or special features. The complexities of Monetarist and Keynesian economics were addressed in typically common-sense fashion with a glossary designed to cut through the jargon. A recession was defined simply as 'when you lose your job' (5 March 1980).

It was significant that the *Mirror* should look to Head to guide readers in this way. By the 1980s a special report by the paper's City editor carried real weight. It was not simply that he possessed expertise in a specialist subject recognized as increasingly important in terms of news value. What also counted was the City editor's special relationship with the paper's readers. Financial journalists over the years have often alluded to this relationship and to the burden that comes with it. For Kenneth Fleet, chief City editor for *Express* newspapers, writing in 1983, the faith that readers invested in Fleet Street's leading financial writers was 'remarkable'; it merited 'a corresponding responsibility and complete integrity' [21]. In the context of popular financial journalism building this relationship has involved empathizing with readers, developing a working knowledge of their particular requirements and servicing them accordingly. Head, interviewed in 1988, was strongly motivated by this aspect of his work, explaining that he had once turned down a move to the *Daily Telegraph* on account of a phone call from a *Mirror* reader in Bradford.

> She had just inherited £2,000 and did not know what to do. She did not even know the name of a bank, not even the Halifax Building Society. I couldn't believe it and I thought, bloody hell, if that's the job that needs to be done, then the hell with traditional City journalism, P/E ratios and tycoons. The lady from Bradford is the reason I have stayed here so long. [22]

It is important to note that adult financial literacy, embracing 'a working knowledge of financial institutions, systems and services', continues to give cause for concern. According to Ron Sandler, former chief executive of Lloyds and author of a recent government-sponsored report on the savings and investment industry, 'the standards of financial literacy in this country are woeful' [23].

Some evidence is available that allows historians to explore the nature of this special relationship. Letters from *Mirror* readers to Robert Head, along with copies of his replies, have survived and are accessible to researchers. This collection, held at the Mass-Observation Archive, covers only January–June 1981, but even a small sample of the thousands of letters it contains is sufficient to illustrate the two-way relationship between Head and his readers, the high regard in which he was held, and the care taken to justify their trust in his judgement. Herein lies a fragmented but compelling picture of the lives of working-class people in Britain on the edge of the great shake-out of industrial labour that occurred in the 1980s, of people characterized by 'an uneasy sense that changes outside their personal world will not match the comforts within it' [24]. Head found himself dealing with the queries of those already redundant and those made anxious by the threat of redundancy, of the elderly widow wondering how best to cope on her pension, of those with some savings who had been offered the chance to buy their

council house, and of parents anxious to put something away for their children. Their personal worlds were some distance from the City but through Head, to whom they often confided intimate details of their lives, it was possible to make a connection. Head's replies, and those of John Husband who assisted him, offered humane and practical advice appropriate to the reader's particular circumstances, dignifying their fears and hopes through the application of expertise in finance. This evidence, in short, suggests that the idea of a special relationship between the *Mirror*'s City editor and his readers has real substance [25].

Popular Financial Journalism in the Age of Sid

Over the 15 years or so since 1984 the context in which popular financial journalism operates has been significantly modified. Very few of those who wrote to the *Mirror* for advice in 1981 were shareholders or were contemplating buying shares. If they asked, Head tended to steer them away from the stock market. Personal share portfolios were largely a middle-class phenomenon; only about 18% of all shareholders in 1983 were drawn from the working class. This situation was transformed by the Conservative government's privatization policy in the mid-1980s. The sale of shares in British Telecom, the Trustee Savings Bank, British Gas and British Airways raised the proportion of the total population owning shares from 5% in 1983 to 23% in 1987, a trend that was later reinforced by demutualization in the building society and life insurance sectors. At the start of the 1980s only 3 million people in the UK owned shares; by the start of the 1990s there were 10 million. Significantly, the largest increase in numbers of individual share owners was to be found amongst the C1, C2, D and E categories, where readers of the *Mirror* and its rival tabloids, the *Sun* and the *Daily Star*, were most likely to be found. Indeed, it has been observed that 'the profile of readers of the *Sun* and the *Mirror*, in terms of age and class, reflected almost exactly the profile of new shareholders appearing in the wake of privatisation' [26]. The decision to launch the weekly 'Sun Money' feature in 1987 was clearly a response to these changes. So, too, was the attempt by the *News of the World* to recruit one-time pop star Adam Faith, now actor and entrepreneur, as its City editor. Faith later recalled that David Montgomery, the editor, 'knew exactly what ordinary people were about and who I wanted to write for'. Though he did not take up Montgomery's offer Faith was later to be found 'bashing out pearls of financial wisdom' in the *Daily Mail* [27].

It is important to recognize the limits of this transformation. 'Popular capitalism' was something of a mirage. Buying a few shares in public utilities at knock-down prices, as Neal Ascherson argued at the time, was 'nothing to do with normal private investment in shares as practised by the old middle classes' [28]. Though the Thatcher and Major governments widened share ownership through privatization, 'most of us remained at best simple "Sids"—essentially passive investors who would hang on to one or two stocks' [29]. Moreover, growth in the number of people directly owning shares was not sustained; it slowed in the 1990s seeming to reach some kind of plateau at around 10 million. 'Privatisation', it has been argued, 'had little effect in progressing the strategy of popular capitalism' [30]. The cult of the equity remained insecurely embedded in British popular culture.

There were, however, some indications that this was changing by the end of the decade. The *Mirror*'s restyled financial section, now called 'Mirror Money', reported a surge in the number of 'investment clubs'. These had 'mushroomed from 300 to 4,000 in two years', a movement which the *Mirror* had actively encouraged (21 July 1999).

Online and telephone stockbroking operations cut the cost of access to a market where highly fashionable dot.com stocks offered the prospect of quick and substantial profits. These simultaneous developments appear to have attracted a new wave of small investors while modifying, to some extent, the attitudes of the 'Sids', previously content simply to hold their shares in privatized utilities or to sell them quickly for a windfall profit, but now inclined to trade more actively. At the same time there was an expansion in media activities related to financial services. 'Everywhere you look', noted Emily Bell, business editor of the *Observer*, 'there are new media aimed at this market, all striving to capture the attention of Britain's burgeoning share-trading community' [31]. Having hosted a Channel Four series unblushingly entitled *Dosh*, Adam Faith went on to launch the Money Channel in February 2000, available 24 hours a day to cable and satellite television subscribers, its declared intention being 'to demystify the subject for the ordinary punter' [32].

Throughout this period of social change the *Mirror*'s weekly money article maintained its reputation for giving careful and prudent advice. 'Your Money' could hardly ignore privatization and encouraged readers to buy shares on the favourable terms offered at flotation. When the share price almost doubled on the first day of trading the *Mirror* greeted the dawning age of the small shareholder with a smile: 'TELECOMMANIA! Investors ring up big profits'. Acknowledging that 'owning shares means taking risks', Head continued:

> The courage to take risks, however, is one of the things that could make Britain great again.
> I advised readers to buy Telecom shares. Now I tell you to hold on to them. Over the years they'll do you proud.

In tone and content 'Your Money' trod a fine line between enthusiasm and circumspection. A paragraph alerting readers to the forthcoming privatization of British Airways was followed by another commenting favourably on new unit trusts available from the Equitable, 'Britain's oldest life insurance company', then considered to be one of the safest places in which to invest regular savings. 'If they are as good as their Pelican Trust, which has more than quadrupled small investors' money since it was launched in 1969, the new ones will be worth backing' (4 December 1984). For those tempted to join the gold rush there were safer and more reliable vehicles than ordinary shares.

This message was underlined when the stock market crashed in October 1987, an event prompting the *Mirror* to give its City editor a full page to reassure small share owners on the morning after 'THE DAY THE CITY WENT BANG'. Head's advice maintained the steady line so evident in his replies to reader's letters 6 years earlier. There was no reason to panic, 'most shares were still THREE times higher than they were six years ago and TEN times up on the pit of 1974'. Further on in the same edition 'Mirror Money' was in characteristic form:

> Too many people were lulled by the great Stock Exchange boom of the 1980s into thinking that buying shares is a one way ticket or gravy train.
> But as I've warned repeatedly, shares are a risk. And nobody should buy until they've bought their own home, have loads of life insurance, a decent pension plan and at least three month's wages safely tucked away in a bank, building society or National Savings.

The small features in that day's 'Mirror Money' underlined the point—'Make that pension work', 'Get in on a council house deal', 'Trust in your units' (21 October 1987).

Thereafter it was reinforced intermittently whenever temptation beckoned. When Barclays issued a press release indicating the advantages of shares as a hedge against inflation Husband struck a characteristic note of caution. 'Only when you have a nice little rainy-day fund safely tucked away should you start putting money into shares' (7 March 1990). Money coverage in the *Mirror* during the 1990s acknowledged that readers might well have an interest in shares. Closing prices were listed and a hotline was set up to enable readers to check on their stock market investments. The emphasis, however, was increasingly on consumer aspects of finance. By the end of the decade 'Mirror Money' could describe itself as 'The eight-page guide to all your personal financial problems.' Campaigning features—'FAIR PENSIONS NOW', 'BAN ENDOWMENT RIP-OFFS'—were much in evidence, as were reports of how the *Mirror* had helped readers who had been badly treated by banks and building societies (1 December 1999).

The Rise and Fall of 'City Slickers'

But, by this time, financial journalism in the *Mirror* had developed a new face. At the start of 1998 total weekly coverage consisted of 'Mirror Money' supplemented by a daily contribution from Clinton Manning ('Manning's Money') featuring company news. This changed on 11 May when Manning was replaced by 'City Slickers'—'THE COLUMN BOSSES WILL FEAR'. Exactly what they had to fear was apparent after only a cursory glance at page 27. Bhoyrul and Hipwell were not likely to be leading the *Mirror*'s readers to the barricades but they were prepared to brazen it out with the City's 'pinstripes' who, Adam Faith claimed, had brought his efforts to make ordinary punters rich to such an embarrassing end in the late 1980s [33]. The lead story on the first 'City Slickers' page, on 'secret' merger talks between supermarket giants ASDA and Safeway set the tone. 'ASDA and Safeway both deny the meetings are taking place. Well, they would, wouldn't they.' Tapping instinctively into the casino culture of the securities market at the millennium they set out their stall as tipsters from the outset: 'If you fancy a punt, why not have a few quid on JJB Sports … Slicker reckons JJB shares can only go up.' This was backed by some useful intelligence derived from JJB's chair, Dave Whelan, ex-Blackburn Rovers, who had informed them that 'the new Brazil shirt is selling like hotcakes'.

It typified the Slickers' approach. Punters, on the outside, were being offered intelligence that seemed to derive from reliable inside sources in a familiar quick-read format. There was, it seemed, nothing to stop the *Mirror* reader from joining the City toffs at the party. One of Bhoyrul and Hipwell's 'boardroom tales' concerned Ian White-Thompson, a director of MG, who had seen the value of his recently purchased shares rise by 70% after the company announced plans to trade non-ferrous metals on the Internet. 'Tip of the day' followed through in style (11 February 2000):

> Why not follow the lead of Ian White-Thompson and buy a few shares in metals trader MG? The company is attracting serious interest, not least from some investors we know in Monaco, and the word is that MG's share price should move sharply higher over the course of the next year.

The Slickers, in full cry, were a sight to behold. It was as if they had reinvented the roaring 1980s for the benefit of would-be punters who read the *Mirror*. Bhoyrul and Hipwell seemed to embody the aggressive egalitarianism of Ian Dury's 'Romford scholar in eurodollars' on the floor of the international futures exchange in the reign of Mrs Thatcher. They were, like him, 'sharper than a knife' when it came to 'wedge' [34].

Bhoyrul cheekily 'expressed dismay' when he was not listed amongst the UK's 200 richest Asians (7 April 1999). The first 'Slickers' page of the new millennium was perhaps the high point of its brief but spectacular career. Under the headline 'SLICK-ERS. . 159% SLACKERS. . 59%' they awarded themselves 'the silver medal', claiming that their 1999 share tips had outperformed all but those recommended by the *Sunday Times*; 'the bronze went to the *Sunday Telegraph* with a workmanlike 75 per cent gain'. There was some fun to be had at the expense of their former employer, *Sunday Business*, with a portfolio 'made up of some of the worst dogs that have ever been allowed to bark in the stock market'. Its 50,000 readers, they concluded, 'would almost have been better off getting burgled'. Underlining the message that the Slickers were on familiar terms with people who counted, Alan Sugar and Richard Branson were congratulated on the knighthoods they had been awarded in the New Year honours list. 'What do we call you guys now? Sir, Sir Al, Sir Dickie? Let us know mateys' (5 January 2000).

The demise of 'City Slickers' in the *Mirror* a few weeks later and the decision to sack Bhoyrul and Hipwell brought this episode in the history of financial journalism to a dramatic conclusion. Stock Exchange surveillance appears to have prompted inquiries into shares bought by Piers Morgan in Viglen plc, Sugar's computer hardware company, in January 2000. Though the *Mirror*'s editor subsequently denied that he had bought Viglen knowing that Slickers were about to tip them for a rise and was cleared by an internal inquiry he was sufficiently embarrassed by the allegations to sell the shares and donate his profits to charity. This episode appears to have drawn attention to the Slickers themselves and allegations regarding further breaches of the PCC Code of Practice. More specifically, it was alleged that price-sensitive information had been passed on privately in advance of publication to both Morgan and, on an earlier occasion, to Tina Weaver, his deputy editor. A second set of allegations related to purchases of shares by Bhoyrul and Hipwell just prior to the publication of favourable comment in 'City Slickers', enabling them to profit from an upward movement in prices. If true, these represented a further breach of the code which advised that it was inappropriate for financial journalists to buy or sell shares or other securities 'about which they have written recently or about which they intend to write in the near future' [35].

As rumours circulated, the *Mirror* was subjected to a barrage of embarrassing publicity, much of it coming from its red-top rival, the *Sun*.

> Tell your friends … tell your family. If you're standing in the pub reading this tell the bloke next to you: YOU CANNOT TRUST THE MIRROR.
> They are a bunch of SPIVS.
> The Mirror is a paper that rips its readers off by tipping stocks which have already been bought by its staff.

David Yelland, the *Sun*'s editor, could not resist the opportunity to claim the moral high ground: 'Encouraging readers to buy low-worth shares at sky-high prices is robbing them of hard-earned cash' [36]. Morgan's counter-attack, utilizing the front page to accuse the *Sun* of 'rank hypocrisy', quickly ran out of steam (6 February 2000). 'City Slickers' gave way albeit temporarily, to 'Financial Mirror', edited by Clinton Manning, a safe pair of hands who was unlikely to trouble the PCC. The *Mirror* added an ironic twist to its own tale of misfortune by publishing an article by Sir Alan Sugar, no less, 'on why the crazy dot.com bonanza has to end soon' (15 March 2000). By this time an inquiry conducted by the paper's owners, Trinity Mirror, had already concluded that action was required and the company had revised its procedures to ensure compliance with PCC guidelines. This was described in a statement issued later by the company as

a 'rigorous internal regime relating to sharedealings which goes much further than the Code of Practice' [37]. As if to underline the point that a lesson had been learned the *Mirror*'s daily City coverage was, within a few months of the Slickers' demise, being supplied by Suzy Jagger, the journalist who had first broken the story of Morgan's Viglen shares in the *Daily Telegraph* [38].

The PCC adjudication acknowledged the steps taken by Trinity Mirror to set its own house in order. Morgan was found to have breached the code twice in relation to share purchases, though only on a technicality in relation to his stake in Viglen; it was also indicated that he had failed to exercise adequate supervision over 'City Slickers'. There was no finding against Weaver, though Bhoyrul and Hipwell were judged to have departed from PCC guidelines when they had spoken to her about shares in Booth Industries, tipped in July 1998. As to shares purchased by Bhoyrul and Hipwell themselves and subsequently given favourable publicity in 'City Slickers', the PCC concluded 'that there were repeated and flagrant breaches of the Code'. This sorry saga had cast a shadow over financial coverage in the *Mirror*, previously regarded as 'an operation of extreme probity'. Sought out by the *Sun*, a dismayed Robert Head had commented: 'When I was there the rule was that no one in the city office could buy, sell or own shares' [39].

Meanwhile Bhoyrul and Hipwell, parodied in *Private Eye* as 'Anil Wind' and, inevitably, 'James Tipwell', had resurfaced in Mohamed Al Fayed's *Punch* [40]. Their 'City Slickers' page, aimed at young, Internet-wise investors looking for a quick return on glamorous high technology stocks, had sat uneasily with the more circumspect style of popular financial journalism with which the *Mirror* had been associated for 40 years. 'We had created a monster that was out of control', Bohyrul subsequently admitted, in a statement quoted in the PCC adjudication. On 1 December 1999 the Slickers, with characteristic brass-neck, had commented in the *Mirror* on the shares of Pacific Media in which dealing had been temporarily suspended.

> We could give you a really technical explanation of why this happens but we can't be bothered—the bottom line is you'll make loads of wonga. What the hell more do you need to know?

A week later, on 8 December, 'Money Mirror' was congratulating itself for the part it had played in saving the Leek United, a small building society, from 'carpet-baggers' and alerting Co-op customers to their £10.5 million Christmas dividend. Readers were invited to draw the conclusion that 'mutuality pays'. They had every reason to be confused. In the end the *Mirror* could not have it both ways.

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NOTES

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[1] See Dilwyn Porter, 'Play it Safe or Think Big?: the *Daily Mirror*, its readers and their money, 1960–2000', London School of Economics, Business History Unit, *Occasional Paper*, No. 1 (2000).

[2] http://www.pcc.org.uk/adjud/press/pr150402.htm, Press Complaints Commission (PCC), 'The Mirror Adjudication' (15 March 2000).

[3] 'We're History', *Guardian* (21 February 2000).

[4] For popular financial journalism before 1960 see Dilwyn Porter, 'Where There's a Tip There's a Tap: the popular press and the investing public, 1900–60', in Peter Catterall, Colin Seymour-Ure and Adrian Smith, eds, *Northcliffe's Legacy: aspects of the British popular press, 1896–1996* (London: Macmillan, 2000), 71–96.
[5] *Financial and Mining News* (24 April 1884).
[6] Charles Duguid, *How to Read the Money Article* (London: Pitman & Sons, 1901), 2–3.
[7] Charles Duguid, 'City Editing', *Sell's Dictionary of the World's Press and Advertiser's Reference Book* (London: Sell and Co., 1903), 132–33.
[8] *Daily Mail* (4 May 1896).
[9] Karen Newman, *Financial Marketing and Communications* (Eastbourne: Holt, Reinhart & Winston, 1984), 62–64.
[10] See Dilwyn Porter, 'City Editors and the Modern Investing Public: establishing the integrity of the new financial journalism in late nineteenth-century London', *Media History*, 4 (June 1998), 49–60.
[11] Paul Bareau, 'Financial Journalism', in Rodney Bennett-England, ed., *Inside Journalism* (London: Peter Owen, 1967), 160.
[12] Tony Mason, 'Hunger … is a Very Good Thing: Britain in the 1930s', in Nick Tiratsoo, ed., *From Blitz to Blair: a new history of Britain since 1939* (London: Weidenfeld & Nicolson, 1997), 11–12.
[13] James Obelkevich, 'Consumption', in James Obelkevich and Peter Catterall, eds, *Understanding Post-war British Society* (London: Routledge, 1994), 141.
[14] See Newman, *Financial Marketing*, 146–53, 185–93.
[15] *Daily Mirror* (10 January 1950). An Edinburgh reader, in the same edition, wrote that he would use his hypothetical fortune to buy houses for ex-servicemen and their families 'who, like mine, have been compelled to live in one small room'.
[16] *The Poor Man's Guide to the Stock Exchange* (London: Labour Research Department Publications, 1959), preface.
[17] Bareau, 'Financial Journalism', 153.
[18] Jeremy Tunstall, *Newspaper Power: the new national press in Britain* (Oxford: OUP, 1996), 359.
[19] Sheila Black, 'In the City', in Vernon Brodzsky, ed., *Fleet Street: the inside story of journalism* (London: MacDonald & Co., 1966), 143.
[20] Richard Spiegelberg, *The City: power without responsibility* (London: Quartet Books, 1973), 1–2.
[21] Kenneth Fleet, *The Influence of the Financial Press* (London: Worshipful Company of Stationers and Newspapermakers, 1983), 7.
[22] Mihir Bose, 'Fallen Stars of the City Pages', *Business* (March 1988).
[23] See Sandie Schagen and Anne Lines, *Financial Literacy in Adult Life: a report to the NatWest Group Charitable Trust* (Slough: National Foundation for Educational Research, 1996). For Sandler see 'Ron's Going Back to School', *Guardian* (15 March 2003).
[24] Philip Whitehead, *The Writing on the Wall: Britain in the seventies* (Michael Joseph/Channel 4, 1985), 413.
[25] Mass-Observation Archive (University of Sussex), Large Collections, *Daily Mirror* Letters, Financial and Investment Advice (January–June 1981).
[26] Benjamin Calvert, *The popular financial press, privatisation and popular capitalism in Britain during the 1980s*, PhD thesis (Coventry, 2000), 211.
[27] Adam Faith, *Acts of Faith: the autobiography* (London: Bantam Press, 1996), 246–53. Faith later operated as a financial consultant with a number of high-profile clients. When his business failed in the late 1980s, Michael Winner, a dissatisfied client, commented ruefully that 'Adam Faith is to financial advice what Frank Bruno is to English literature'. See Faith's obituary, *The Times* (10 March 2003).
[28] Neil Ascherson, *Games with Shadows* (London: Radius, 1988), 101–102.
[29] 'Suddenly Britain has Become a Nation of Exuberant Shareholders', *Independent* (11 December 1999).
[30] Calvert, *The Popular Financial Press*, 214.
[31] 'Slickers Fuel the Casino Culture', *Observer* (6 February 2000); for the new media see also 'Take a Tip—and steer clear of the wide boys', *Guardian* (12 February 2000).
[32] 'A Nice Little Earner', *The Express: get up and go!* (February 2000). When the Money Channel folded in May 2001 Faith was reported to have suffered a loss of £32 million. See *The Times* (10 March 2003).
[33] For the demise of the 'Faith in a Million' investment fund promoted by the *Mail on Sunday* see Faith, 252–53. Faith claims that 'the boys in the City got cold feet', causing the project to be abandoned 2 days before it was due to be launched.
[34] For the 'Romford Scholar' see Ian Dury's 'Futures Song' in Caryl Churchill, *Serious Money* (London: Methuen, 1987), 61–62. 'How hard I dredge to earn my wedge, I'm sharper than a knife …'

[35] For details of these allegations and the outcome of the PCC investigation see PCC, 'Mirror Adjudication'.

[36] 'Scandal that Taints Mirror', *Sun* (5 February 2000). For an account of the tabloid war between the *Sun* and the *Mirror* see 'Are These the Most Deranged Men in Britain?', *Independent* (9 February 2000); see also 'In the City' and 'Mirror Mirror on the Make', *Private Eye* (11 February 2000).

[37] See 'Morgan Stays Despite PCC Censure Over Share Dealing', *Press Gazette* (12 May 2000).

[38] 'Morgan to Offer Jagger Financial Mirror Editorship', *Press Gazette* (2 June 2000).

[39] Tunstall, *Newspaper Power*, 359; for Head's comments see 'Mirror Editor's Share Deal Raised in the Commons', *Sun* (3 February 2000).

[40] *Private Eye* (11 February 2000). For an update on Bhoyrul and Hipwell see 'The Insiders' Story', *Guardian* (26 July 2000).

Chapter Nine

On the dark side of democracy: the global imaginary of financial journalism

Anu Kantola

Introduction

Economic globalization and market liberalization have challenged national politics and political imaginaries during the last 20 years. With the rise of the market liberalization and market-oriented policies the faith of the nation state has become a matter of intense discussions (e.g. Hirst and Thompson, 1996; Strange, 1996; Habermas, 1999; Hardt and Negri, 2000).

In the new globalized condition, states are seen as competing on the 'hypermobile' capital (Warf, 1999) and tackling the increasing power of the multinational corporations as transnational multinationals and international finance capital have become increasingly influential in politics (Schmidt, 1995; Sklair, 2002). The state has been seen to evolve to a competition state (Cerny, 1990: 220–47) or an entrepreneurial state (Harvey, 1989: 178; Warf, 1999: 239), which tries to appear as an appealing place for investments by lowering taxes, providing cheap, flexible, or skilful labor, industrial sites or parks. The new global condition for the state and national democracies has been labelled for instance as flexible capitalism (Harvey, 1989, 2001), supermodernity (Auge, 1995) or hyperglobalization (Hay, 2004: 520).

With regard to democracy, the greatest worry has perhaps been whether a progressive separation of power from politics will take place (e.g. Bauman, 1999: 24–31, 120; Habermas, 1999). These worries have been enhanced by the problems of politics and public communication (Blumler, 1995; Franklin, 2004; Louw, 2005). These processes might mean that representative democracy and its institutions are weakening. Or to be a little more cautious, at least it seems like the scope and spaces of democratic politics and processes are currently under negotiation due to the processes of globalization (e.g. McNair, 2000; Dahlgren, 2001).

The aim here is to examine the role of journalism in these processes. As it is well known, journalism has a crucial role to play in modern mass democracies. Journalism offers information on political issues, gives an opportunity to bring up new political issues, creates opportunities for an ongoing dialogue and acts as a watchdog of the decision-makers. Moreover journalism contains a view of the world, a social cosmology or a political imaginary by which our societies and life are imagined (Anderson, 1983; Gonzaléz-Veléz, 2002; Taylor, 2004: 50). As Benedict Anderson (1983: 14–49) has pointed out, modern polities are to a certain extent imagined communities. Polities and political life are maintained

through public arenas where the citizens of the polity do not actually meet, but rather imagine themselves belonging to a common community. Journalism can thus be understood as an imaginative exercise, which formulates social and political imaginaries. Modern polities are imagined through the endless stream of everyday journalistic texts; by the news, articles, columns, comments, and leaders which describe, analyze, interpret, debate, and contest the political.

Historically, journalism has had a particularly central role in building up national imaginaries by having tight connections with national imaginaries and democracies. As the global economy has been liberalized and the premises of the nation state have been questioned, journalism has a role to play in this process as well. As political imaginaries are changing and globalized political imaginaries are created (Cameron and Palan, 2004), it can be assumed that these global imaginaries are reflected also in journalism and, moreover, that journalism has a role in their construction.

In his sense, especially the role of financial journalism, and the role of the *Financial Times* (FT) in particular, form an interesting subject of study. Most on the media as well as on journalism is still very much nation-based and directed to national readership. There are, however, also media, which have been increasingly internationalized and can be seen as a constitutive for the new global imaginaries. International financial journalism can be seen as reflecting these new political forces and imaginaries of mobile finance capital. The aim here is to understand the role of international financial quality journalism by describing the political rationality of the FT. The analysis concentrates on the ways the FT apprehends national democracies. How does international financial journalism treat national democracies? How are the national imaginaries rewritten by internationally oriented financial journalism?

Forerunner of globalization

The FT has its roots firmly in the United Kingdom but the international scope has been a central one for the paper right from the start. The paper was founded in the late 1880s together with the *Financial News*, as London was emerging as the financial capital of the world markets and the enhancing Stock Exchange of the British Imperium provided a promising potential readership as well as advertisers for a financial newspaper (Kynaston, 1988: 1–2.). The birth of the paper thus took place in the heydays of British imperialism and colonialism, which has had a strong impact on the paper. The scope of the paper was global as the FT – already in the early twentieth century – boldly announced having ‘the largest circulation of any financial newspaper in the world’ and the emphasis on the global view was substantiated in for instance the ‘Empire Section’, published weekly from 1910 (Kynaston, 1988: 61–5).

During the twentieth century, the FT has been a forerunner of contemporary financial globalization by paying increasing attention to the internationalization

of the economy. A strong developmental work regarding the paper's foreign news took place after the Second World War (Kynaston, 1988: 148–49). A foreign department was founded in 1951 (Kynaston, 1988: 213) and from the 1960s onwards internationalization became, in David Kynaston's (1988: 373) words, 'the single major direction of the newspaper'. The paper was billed in early 1970s with a slogan 'Europe's business newspaper'. The stringer network had 100 stringers around the world and the number of full-time foreign correspondents, almost 30, was larger than in any newspaper, with the exception of the *New York Times.* Moreover, there were regional specialists based in London but travelling frequently (Kynaston, 1988: 375–6). In 1979, the FT launched an international edition printed in Frankfurt and to highlight the increasing internationalization of finance a section titled the 'World Stock Markets' appeared (Kynaston, 1988: 421–4).

By the beginning of the twenty-first century, the FT represents a branch of journalism trying to convey the news to the internationally oriented investor. The paper claims to reach more senior decision-makers than any other international title across Europe. In opinion leader surveys, the FT has proved to be the most widely read international daily amongst the most important opinion formers in government, business, the media, academia, and international organizations (*Financial Times*, 2005a). The FT has also been ranked as the most widely read international business title among Europe's senior business people, and the paper has increased its circulation especially in the Asian countries. (*Financial Times*, 2005b).

Thus it is interesting to look at the political imaginary of the FT as it apprehends national democracies around the globe. How does international financial journalism treat national democracies? How are the national imaginaries rewritten?

The empirical material consists of the FT coverage on national parliamentary elections from 2000 to 2005. The material covers 32 general parliamentary elections between 2000 and 2005 and consists of the most notable national economies in the world, i.e. the OECD countries in combination with the most notable economies outside the OECD. The countries included are Mexico, Italy, United Kingdom, Norway, Poland, Denmark, Portugal, Ireland, France, the Czech Republic, Sweden, Slovakia, Germany, Turkey, the United States, Austria, the Netherlands, Finland, Iceland, Russia, Greece, Spain, India, Canada, Japan, and New Zealand. Six countries had two elections during the researched period and both elections are included.

The research material, 219 stories of which 23 are leading articles, was gathered during a period of a fortnight (1 week before and 1 week after the respective election). All the stories that have the election and the political situation as their main theme were included [1]. The election stories were retrieved from the FT.com website archive. The stories that had appeared in

the printed edition, either in the United Kingdom or in the FT European edition were included and stories that have appeared only on the FT.com website were excluded. In order to concentrate on the FT's journalism, stories written by an 'outsider', i.e. a writer noted for other affiliation than the FT, were excluded.

The historical hard core of FT's journalism perceives the world through the lenses of international capital analyzing the prospectuses for investments. And as business can be done in every walk of life and is affected by politics, social, and cultural life, financial journalism has never restricted itself solely to the world of finance. In 1945, the new editor Hargreaves Parkinson described the challenge of the paper showing how the investor's point of view had become a relevant issue for men and women 'in every walk of life':

> *A great body of readers, men and women in every walk of life, find that, in this difficult mid-twentieth century world, questions which used to be the exclusive concern of the economist and the business man exert a profound influence on their daily life. Never have readers been do avid for guidance on everything bearing on full employment, inflation, taxation, the future of Government controls and similar problems.* (Cited in Kynaston, 1988, 153.)

The study of the election coverage of the FT from 2000 to 2005 shows that the paper covers national politics widely around the world. Albeit the paper was interested in the financial issues, but also issues such as welfare, taxation, healthcare, unemployment, immigrants, populism, wars, and civil unrest, voting practises and frauds as well as the individual politicians were covered. In the election stories analyzed the main themes were:

- Stories concentrating on the prospective popularity, success, and tactics of the various parties and prime minister candidates
- Stories on politics from the point of general economic policies concerning fiscal, monetary, and welfare policies
- Stories on the reactions of the financial world: the investors, business leaders, stock exchanges, and exchange market reactions and
- Stories on the non-economic election issues, such as the war on Iraq, immigration, populism, or terrorism.

Reporting democracy

When looking at the election coverage stories, it became clear that the FT often positions itself in favor of democracy and calls for enhanced democracy. The countries and elections are evaluated by standards of democracy. In the more 'consolidated' democracies of Western Europe, the FT's most important indicator of democracy is the voter turnout. For instance, in Italy the turnout of

80 per cent is greeted and framed positively in the name of democracy as 'a great day for democracy in Italy' [2]. Democracy is also in the Dutch elections presented in a positive light as the election result is endorsed 'The old arrogant style of the main parties has been forced to give way to more democracy. That is a positive benefit' [3].

The non-western countries are often assessed by their ability to conform to the western standards of democracy. India is praised in a leading article on its 2004 elections 'The sheer size of an election in India, with all its chaos and exuberance, is a magnificent and humbling spectacle, which rightly commands respect across the world' [4].

The Mexican election results in 2000 are greeted as a revolution, as 'a transition from one-party rule to pluralist democracy' which 'completes Mexico's long transition from one-party dominance to pluralist democracy, adding political maturity to a more competitive market economy'. The defeat of the leftist Institutional Revolutionary Party is greeted with satisfaction as a step towards 'political maturity', i.e. the western style of democracy of changing governments [5].

Democracy and elections are also celebrated in the case of Japan in 2005 as an enthusiastic voter is interviewed in an analysis story:

> *Although not herself a supporter of Mr Koizumi, she argues that he has performed a big service to those who aspire to a more robust and transparent democracy. 'This is a marvellous moment, something for which Japanese democracy has been waiting for half a century', Ms Hama says. 'In this election, people have to say what they mean and mean what they say. They can't get away with being wishy-washy – something unprecedented in Japanese politics'* [6].

Prime Minister Koizumi is praised in a FT leader for his efforts to transform Japan into a western-style democracy:

> *Just as post-war Japan has never wholeheartedly adopted western competitive capitalism, so it has never been a western-style competitive democracy except in its structure. By challenging the old factions in the LDP, gathering power in his own hands at the centre of the party, insisting on an ideological election platform and fighting a televisual campaign, Mr Koizumi has become a political moderniser* [7].

In Turkish elections, the defeat of the ruling party is greeted as a revolutionary act of the voters. It is described in a positive tone by using the voices of the man-on-the street:

> *'We needed a clean-out of the old system,' said Behic Ozek, 50, a businessman. Candan Ersoy, a 28-year-old child-minder, agreed. 'The best thing about this*

election is that we won't have to see the same ugly old faces any more, and that the new government, at the end of its term in office, will not be able to say 'oh we were not able to keep our promises because we lacked a parliamentary majority' [8].

In the Russian elections, the election story describes the dismal state of the Russian democracy with a worried tone:

On the whole, Russians probably did freely express their choices on Sunday. But the system they voted for remains far removed from a western-style idea of democracy centred around a strong parliament that counters the power of the executive. Low voter turnout of barely 50 per cent coupled with a sharp rise in protest votes 'against all' to 5 per cent show that a significant proportion of the Russian electorate feels disenfranchised. Voters are increasingly disengaging from the political process little over a decade after totalitarianism collapsed [9].

In a leader on the Russian, elections the worries over democracy are expressed in a clear way:

For Vladimir Putin, the Russian president, Sunday's parliamentary election was a triumph. But for the cause of political freedom in Russia it was a serious defeat. The forces of authoritarianism marshalled by the Kremlin have pushed further into territory once occupied by democracy [10].

Thus the FT clearly carries the flag of western democracy when assessing the elections. The ideals of the western democracy are used when analyzing the election results and the principles and practises of the western democracy are supported and recommended for the non-western countries.

Call for reforms

Beside democracy, another common theme in the research material is the constant and insatiable emphasis on reform, which seems to be the cornerstone of the political imaginary of the twenty-first century FT. The idea of reform is a central element in modern political imaginaries. The story of progress and the idea of revolution as a way to a progressive society are central myths of modernity (Taylor, 2004: 176). Alan Touraine sees the modern world saturated by the idea of revolution. The idea of a struggle against an 'ancient régime' is a central element in the idea of revolution, which triumphed in the West during the eighteenth and nineteenth centuries and spilled over to the Soviet and Chinese revolutions (Touraine, 1990: 122–3). Liberalism, most notably in the French revolution, alongside Marxism, forms a system of thought based on the

idea of revolution. The old system has to be dismantled and a new system introduced. This seems to be the case also with the political imaginary of the FT. Twenty-first century financial journalism joins the modern political programs of reform.

The notion of reform appears in the research material over 300 times, and it is the most common theme related to politics and elections. The political communities are assessed by their ability and readiness for reform and change. The politicians are classified as pro-reform or anti-reformist, and their actions are evaluated by their readiness for reform or alternatively by their capability for reform [11]. The news stories and commentaries are posed from the point of the necessity of reform. Are the parties reformative or anti-reformative? Will the election result help the reformers? Are the reformers winning? Can the anti-reformative winners still become reformers?

As a new government faces its new term, the commentaries are often framed as summing up a list of reform or change challenges [12]. Politicians are evaluated by their capability to enforce reforms as well in Mexico as in Germany [13]. Often the reform is a given, an unquestionable key for solving large-scale societal, political, and economic problems. For instance, when Silvio Berlusconi wins the Italian elections in May 2001, his main challenge is formulated in an analysis story by pondering 'Berlusconi's commitment to reform' and by framing his first task, backed by the authority of international economists:

> *He comes to office with a largely untried team taking charge of an economy that has underperformed all of its main European Union partners for the last five years. Growth last year reached 2.9 per cent but international economists urge structural reforms to sustain the performance in the medium term* [14].

There is a call for general reforms, such as *structural reforms* or *liberalizing reforms*, which seem to be linked to the overall economical liberalization and privatization of the national economy. Moreover, there is a host of more specified reforms such as *tax reform, labor market reform, public sector reform, regulatory reform, land reform, reform of the welfare state, the public sector, the health and social services*, and *the labor market.* Most of these reforms, thus, fit together with the tradition of market liberalism. During the last 20 years, there has been a liberal call for change and transformation of the state and welfare system, tax policies, and social policies in political talk (Clarke, 2004: 11). Judging from the research material, the FT seems to join the call of the late twentieth century for market-oriented reforms. As the reforms are addressed, the state and public sector seem to be most in the need of reformatory actions. The reforms seem to point almost without exception to the decreasing role of public funding and taxes in the economy. Having a history as a paper of the international investor and emphasizing financial discipline, the FT follows

up on its tradition and consequently applies market liberalism to countries worldwide by framing its election stories, columns and leaders in terms of liberal economic reforms and emphasizing the primacy of fiscal discipline over welfare spending.

For instance, in the case of the Portuguese election in 2005, the new Prime Minister José Socrates announces that his target is a 'Nordic social democracy'. The FT clearly delineates in a news story what that means in practice for Portugal 'tough reform and austere approach to public spending'. This will mean in concrete terms cuts in the public sector:

> *Disciplining expenditure will involve cutting back an army of 700,000 public employees with a wage bill equivalent to 15 per cent of gross domestic product. Mr Socrates says he will cut 75,000 public sector jobs in four years without imposing redundancies* [15].

The massive cuttings of the public sector employment are presented as a simple and an unquestionable route to 'Nordic prosperity' for Portugal, a country with an already much smaller public sector and higher unemployment than the Nordic countries.

In the Japanese elections in 2005, the state is described in rather bleak terms in a 'Lex Column':

> *For all the talk of reform and smaller government, the state reaches into much of Japan. Government fingerprints are on everything from the lottery to universities, telecoms to railways. The government has slashed funding to special public corporations – essentially subsidised entities – but will still channel $35bn their way this year. These groups waste resources and their management is hobbled by the practice of amakudari, whereby government officials 'descend from heaven' into cushy pre-retirement postings* [16].

The discourse of reform has also a strong Anglo-Saxon element, which is reflected for instance in the way Germany is seen. From the FT's perspective, Germany is clearly the country most badly in need of a structural economic reform. In the 2002 elections after the red–green government had won, the FT points out the need of reform. In an analysis story, Germany is seen as a failing economy [17] and the election leader on Germany gives firm guidance how to interpret the election results:

> *In a country chronically averse to change, Mr Schröder campaigned on a platform of minimal economic reform, with his challenger offering little better. But it would be a tragedy for Germany and Europe if the chancellor-elect now interpreted this near dead heat as a mandate for further drift* [18].

In a similar vein in the context of the 2005 elections, the FT interprets in a news story the failure of the conservative Angela Merkel of not gaining a definitive majority with dismal tones by seeing the result as sending 'shockwaves around the European Union' and leaving 'supporters of economic reform in despair' [19].

Roll over elections! The master plan of economics

When the elections result is backing economic reformers or the parties that are counted as reformatory, the FT stories can be written rather easily. Countries, which seem to pass the test of economic reform and democracy, are treated favorably. Thus, for instance, India is labelled in a pre-election story in 2004 as 'the new star of Asia combining democracy and economic growth' [20].

In Eastern Europe, the Slovakia's centre-right government is getting a positive coverage as the result is described as a phoenixlike performance. Slovakia is noted as one of the very few post-communist countries that has won a re-election 'while pushing through tough reforms', and the results are seen as a very positive indication:

> *The new government should be welcomed by foreign investors and financial markets. It will be more coherent than the current fractious left-right coalition, allowing it to press ahead with painful budget cuts and reforming the public sector* [21].

However, when the election result is in conflict with the economic reformers, financial journalism becomes a tricky task and the reasonable voice of journalism is used to establish the order between the discourses of economy and democracy.

The most common way of positioning the economic reform as primary over democratic discourses is to present the economic reform program as an inevitable and unquestionable 'task' or 'sole option' for politics. This task or challenge is stated as a matter of fact in similar ways in both the news stories and the more opinionated leaders and columns.

The journalistic voice of the FT seems also to have a clear sense for 'right' policies and a clear conception on what is to be done in different countries – despite the election result or the voters' will. The economic reform is the premier issue that has to be taken care of, and only after that there is space for democracy and politics. For instance, in Slovakia in a 2002 news story, the major task of politics is claimed to be 'in the fiscal area which will not be very popular'. Thus 'there will need to be a consensus on economic reform' [22].

In many cases the election result is openly questioned, and in some cases the FT even seems to invalidate the election results by maintaining that the policy programs, which have been defeated in the elections, should still be implemented. For instance in India, the problems start with the outcome of the 2004 election, which wipes out the reformers [23] and their 'genuinely liberal

economic reforms' [24]. The defeat of the reformers is discussed in an extensive article, which brings out the various interpretations of the reform [25]. Finally, the FT commentary story ends with the following conclusion:

> *In the short run, India's economic reformers will be discouraged by yesterday's decisive verdict. But once the shock has been digested the conclusion might as easily favour more comprehensive economic reform* [26].

Also Sweden needs to rethink its policies. Social Democrats have won the elections with a clear anti-reformative program, as the FT describes:

> *There has been no confusing Mr Persson's message. Improving schools, social services and the public health service go before any tax cuts. The main opposition party, the conservative Moderates, who proposed large tax cuts, had a disastrous result, losing around a third of its support* [27].

Despite the election results and Persson's victory, Sweden is getting a clearly contradictory piece of advice. In a rather definitive and even threatening tone, the FT concludes that the new prime minister should implement policies that have just been defeated in the elections. The FT picks up the loosing agenda of tax cuts and recommends the prime minister to move on with them despite the election results:

> *But he [Mr. Persson] needs to do more if Sweden is to reverse its long slide from near the top to the middle of the world prosperity league. He should cut taxes - among the highest in Europe - to stop the corporate exodus and to foster small business. He could pay for this by streamlining public services and pruning welfare abuse. These moves should be on the agenda for his new term* [28].

A similar negligence of the election results is visible in the 2002 Czech elections. As Vladimir Spidla, a clearly articulated leftist, has won the elections, the FT news story notices that the new prime minister 'obstinately resisted fundamental reform as minister and pledged to defend the welfare state during the (election) campaign'. The FT then formulates in an analysis story the main challenge for the new prime minister '[t]he question is can he also transform himself into a reforming leftwing premier?' The FT leader reminds the new Czech government on the primacy of economic discipline despite the election promises on welfare spending:

> *The new government must recognise that sound public finance comes first, followed by further economic restructuring. Otherwise the gains of the past few years will be lost, as will recent success in attracting foreign investment* [29].

After the German red-green victory in 2002, it is warned that if the government should fail to make economic reforms its priority, the poll's result could have an adverse effect on growth. Ludwig Georg Braun, president of the assembly of the German Chambers of Commerce calls for a reform 'master-plan' focused on higher labor market flexibility, lower non-wage labor costs, modernization of the social security system, and a working education system [30].

This idea of economic reform as a master plan of politics is a central element in the political imaginary of the FT. The political community is described as a primarily economic community, and the complicated political issues are simplified and presented as having simple economic answers. The actual contents of these reforms are, however, often discussed vaguely. Rather they are thrown into the text as black boxes, reasonable solutions that float over the struggling polity as if the problems of society had a simple economic solution and as if there was a uniform and unquestionable understanding of the laws and functions of the economy. The question is not how to make an economy successful, but rather whether a society is willing to make the economy successful as the way to economic prosperity consists of a clearly delineated and well-known package of actions. The task of journalism is not to describe or discuss the various alternative solutions to a given country's problems but rather to assess whether the voters and politicians are bright enough to adopt the reasonable solution entitled economic, liberal, or fiscal reform.

Problem with the democratic process: the voters

The clash between the discourses of economic reform and the discourses of democracy is also clearly seen in the ways the voters are positioned. The 'will of the voters', deduced from the election results, forms one of the backbones of the democratic process. However in the researched election coverage stories, the FT does not show a great respect on their voice as voters are described rather seldom in positive light.

Somewhat exceptionally the German correspondent interprets in his column the 'will of the voters' in a favorable way 'Germans are ahead of their politicians in their willingness to accept reforms and change. All they need now is leaders with the courage to put that into practice' [31]. But especially in cases where the election result does not support economic reforms, the voters are labelled in unfavorable ways by questioning their reasonability and motives. Voters are also often characterized being lead by emotions and instincts rather than reason. They are considered emotional in opposition to the rationality of the rational economic reforms. A leader describes the situation after the Czech election in 2002:

> *Reformist governments have struggled to win elections in ex-Communist central and Eastern Europe. Voters, angry with the pain of economic restructuring, have generally voted for a change of government when they have had the chance* [32].

Besides being 'angry', voters are 'against change' [33], 'instinctively reform-shy' and 'alarmed' [34], 'taking revenge' [35], 'venting their anger' [36], 'spoilt' [37], their 'fears are exploited' [38], and, in the French case, they have 'superficial distrust' of global capitalism [39].

In France, the FT leader formulates a clear recipe challenging the voters' priority:

> *The government may be tempted to pour its energies into law and order – the voters' priority – and do little else. That would be a mistake. Consequently the leader lists a variety of 'unavoidable' reforms such as tax cuts, the reform of the 'bloated' bureaucracy and privatization* [40].

The problems of the political system are often seen to lie within the irrationality of the electorate and framed in terms of irrational populism and nationalism. Alongside with the problems of populism [41] and 'hard-nosed' nationalism [42], the notion of xenophobia is mentioned as a problem, at least in Italian, Danish, Swedish, Russian, Austrian, Turkish, and Indian political life [43]. Sometimes, especially in the rare stories where voters are interviewed – thus including the 'real voice' of 'the man on the street' – they are described as passive bystanders, not interested in politics [44] and dissatisfied with politics in general.

In many cases, the inevitable reforms and the voters are seen as oppositional. In Russia 'the biggest problem for Putin is that modernization has to enter a stage where reforms really hurt' [45]. In an US election story, it is stated that the true problems of the economy cannot be discussed in elections, as the solutions would see Americans worse off and 'this is the problem with the democratic process' [46]. In Germany, the problem of the unreasonable and also morally suspect voters is clearly delineated in an analysis story on the 2005 election. The article takes off by saying 'no one doubts that Germany needs radical tax reform', but:

> *There lies the great dilemma. It seems that you cannot win a German election if you promise too much reform, even if all the party leaders know that pensions, the health service, the labour market and tax system need radical action* [47].

The voters are criticized for being troubled by self-interest and for not warming up to the idea of a flat tax:

> *Yet Prof Kirchhof's flat tax solution is too radical for German voters to swallow. Most benefit from tax breaks and they do not want to lose them. Mr Schröder and his allies have exploited the fears by portraying the professor as a threat to the entire German social contract* [48].

Voters are, thus, depicted as self-interested economic men, who are not capable of understanding the reasonable logic of reform. The real issues cannot

be discussed in the public election debate, as voters would not back them up. Democratic politics are thus caught in the gridlock of the unreasonable voter.

Consequently, in some cases it is made clear that the government has to act despite the 'will of the electorate'. For instance, the analysis story as well as the leading article on the 2002 Czech elections suggest that economic reforms should be implemented even when they are adverse to the election-winning manifestos. As the reforms do not pass in elections, they need to be implemented just after the new government has been elected and well before the next elections.

The Prime Minister Spidla is recommended to immediately go on with an unpopular reform well before the next elections, as the 'main challenge' of the new prime minister is to cut the budget deficit and 'to reform the welfare state, particularly the loss-making state pension system'. The immediate pension reform is urged by a US think tank professor concluding *'[t]he only time a new government can do it is one to two years after the election'* [49].

The primacy of economic reform thus rolls over democracy. If the voters do not back the reform, it is to be implemented long before new elections take place and the elected politicians are to act against their election promises. In cases where the election results are in discrepancy with the ideas of the economic reform, the former gives way. The perception of voters is formulated by the financial journalistic discourses in ways, which do not hamper the primacy of the economic reform.

Sad truth about politics

The antidemocratic tone of FT's financial journalism is also visible in the ways national politics are described. National politics, which are the primary arena of democracy, are often treated with cautious criticism. At times, it looks like the sceptical discourse of the watchdog journalist and of the market liberalist suspicious of state, find each other and form a particular discourse of political cynicism, which is directed towards anti-reformatory politics. For example, in a post-election story on the German elections, the new prime minister is blamed for flowery language and described sceptically because he might not implement the liberal market reforms the FT supports:

> *While fitting for a morning-after speech, such flowery language gives few answers to the key question hanging over Germany's new government: whether the chancellor will use his renewed mandate to introduce the far-reaching reforms needed to kick-start the weak economy and restructure the country's creaking pension, health and social welfare systems* [50].

Most often the suspicion with politics seems to be linked with the national element of politics. The logics of globalizing capital and weakening of the nation state seem to be reflected in the discourse of the FT and its suspicion towards national politics. Politics often gets a somewhat dubious sound, as a way of dealing

with things. There is lots of suspicion with regard to the 'old' national interest groups. This is related to the perspective of the global investor, who favors the new globalizing economy:

> *From the point of view of foreign investors, the crucial point is that economic reform, deregulation, privatization and the opening up of India to the world through lower tariffs and fewer trade barriers are likely to continue* [51].

This point of view seems to contribute to the rather negative tone towards nationally based politics and economies. The post-war national systems are seen in a negative light. The old nationally based politics are often depicted in a negative tone and seen as opposed to economic reform. In the Turkish case, a tough fiscal policy and the 'cleaning up of the banking system' are seen as foundation for a much 'healthier' economy. However it is warned that 'There is a danger that partisan politics might again be allowed to subvert transparency and genuine competition in the marketplace' [52]. In Japan, the pro-market reform, the 'lionheart' Prime Minister Koizumi is seen battling against the 'political machine' [53].

In the coverage of the Mexican elections in 2000, the until-then hegemonic Institutional Revolutionary Party is characterized as 'the world's longest-ruling political dynasty' [54]. Mexican society is hampered by 'oligopolists' and 'special interest groups' [55]. The German interest groups are described as 'antediluvian' [56]. Japan is hampered by 'pork-barrel' politics [57]. Politics, still very much a national activity, is characterized as 'partisan', as an antidote to something unpartisan and neutral. Politics incline towards 'political horse trading' [58] and 'ideological zigzags' [59].

After the German election 2005, the unfortunate election result is seen in terms of an opposition between politics and economic sensibility: 'As of today, the politically most likely and economically least sensible option is a grand coalition of some sort' [60].

Strong leaders wanted

As democracy, voters, elections, and politics pose problems for economic reformers, the solution is often seen in strong leadership. Strong leaders are sought and wanted in order to drive through the necessary liberal reforms and they are praised for their actions – at least as long as they are also economic reformers along the lines of the FT. Japan's Junichiro Koizumi fits the picture. In the case of the Japanese election in 2005 a column starts:

> *Junichiro Koizumi is the type of leader markets love: one with overwhelming public support and a mandate for reform. Japan's stock market yesterday added its vote of approval to his landslide election victory, hitting a four-year high* [61].

In another story, the following comment is made: 'many voters find attractive the idea of a leader standing up for what he believes in and daring to take on the sacred cows of the LDP'. The analysis is enhanced by quoting an informant:

> *'Koizumi is taking on the ancien régime,' says one person who has worked closely with the prime minister. 'He's the only one with the guts to do it. People like him for that'* [62].

As the voters act somewhat irrationally, strong leadership, a semi-antithesis of democracy, is seen as the way to solve the problems of democracy. In the UK elections, the dilemma is summarized by a columnist, who compares the first-past-the-post and the proportional voting systems vice versa economic reforms:

> *But if we think of democracy as a decision rule, the issue is a little more complicated. At times when radical reform is needed, such as in the Britain of the late 1970s, first-past-the-post enables a government such as Margaret Thatcher's to take unpopular initiatives and allow the electorate to vote subsequently on the results. In Germany today the combination of proportional representation, plus the need on many issues to get a majority of the regional governments as well, puts a brake on needed reform* [63].

In a similar tone, the prospect of UK politics is described in 2005 as depending on the capability of leading politicians and warns that a considerable part of the labor MPs are 'hardened rebels' who could pose a threat to reform:

> *Tony Blair and Gordon Brown forged a powerful alliance in the election campaign in order to put Labour back in power. The central question in British politics now is whether that co-operation will continue – or whether we will soon be back to the old squabbles of the past. If co-operation between the prime minister and the chancellor carries on with the same intensity seen recently, then Labour has a chance of pushing through a third-term reform programme* [64].

The idea is not about respecting the views of the elected MPs but rather about hoping that opposing voices are silenced in the face of the 'united front'.

In the case of Mexico, the Mexican president is compared unfavorably with the determinate leadership of President Reagan:

> *Mr Reagan set an agenda with a limited number of clear priorities and hired effective 'enforcers' to work for him. Mr Fox appointed a politically diverse yet inexperienced cabinet with no clear 'enforcer' and failed to lay out a clear agenda* [65].

In the Polish elections in 2001, the result is interpreted as unfortunate as it 'has left the country facing political uncertainty just when it needs strong leadership to prepare for European Union accession' [66]. In Sweden, the referendum on adopting the Euro and joining the EMU is seen as a matter of party leadership. In a pre-referendum story in 2002, where party leaders clearly supported the Euro but voters were divided, the FT sees that 'A strong and united SDP is seen as being best able to persuade sceptical Swedes that joining the single currency is in the country's interest' [67].

Also Germany – the country with voters most stubbornly resisting economic reforms – is suffering from the lack of strong leadership, which is noted in both the elections in 2002 and 2005. A leader concludes in 2002 'Germany and Europe need a chancellor who will be bloody, bold and resolute – and willing to take on vested interests for the greater good' [68].

The German 2005 elections are interpreted as a sign of a wider problem of the European political leaders in a news story entitled 'Spectre of election defeat stalks Europe's reformers'. Despite their constant 'vows' for economic reform, the European leaders have difficulties 'turning the rhetoric [of economic reform] into vote winning strategies'. The FT story infers that – with the notable exception of Margaret Thatcher – it has been not possible to promise a programme of radical economic reform in Europe and win elections. And further on, the same dilemma applies to the 'almost every post-communist government in central Europe' [69].

This emphasis on strong leadership seems to be linked with a rather anti-democratic understanding of democracy. If the outcomes of democracy are not what the FT hopes for, the problem lies with its weak leaders, not in weak ideas loosing in elections. The main task of the political leadership is thus to implement the economic reforms even when they are contradictory to the election results. This rather anti-democratic call for strong leadership can thus be understood as a way of trying to solve the discrepancies between the economic and democratic discourses by framing the unpopularity of the economic problems in terms of leadership rather than of democracy.

Political imaginary of financial journalism

The political imaginary of the early twenty-first century FT is founded on democracy and on market liberalism. However, when the hierarchy between these two discourses is analyzed, it becomes clear that the central element in the political imaginary of financial journalism is its priority for liberal market reforms. When in conflict, democracy, elections, voters, and politics are subservient to them.

The FT strongly promotes democracy both in western and non-western countries, but in cases where the proponents of market liberalism are not on the winning side in elections, the paper gets deeply critical of democracy. When the liberal economic reformers loose in elections, the FT frames the issues in ways,

which belittle the democratic principles and practices. Moreover, the FT often takes clear political stances and maintains the need for the implementation of liberal economic reforms notwithstanding their poor performance in elections. The market reforms are seen as unavoidable, despite contradicting election results. In order to maintain the reasonability of its own political stance, the paper labels the voters as emotional or self-interested, national politics as morally questionable and calls for strong leaders.

The political imaginary of the FT can perhaps be understood as an element of the political regime of globalization as an attempt to re-imagine and redefine the national polis at the age of internationalized capital. This global imaginary questions the reasonability of national democracies and sees them as secondary to the primary aims of economic liberalism. The mobile capital has a need for a political language, which reduces the local meanings and co-ordinates them in a standardized way. David Harvey (1989: 284–307; 2001: 121–7) speaks of the time–space compression entailed in capitalism. Capital accumulation has always thrived for the speeding and widening up of action. It thus reduces and brings down temporal and spatial barriers that flexible capitalism does not need and only tolerates localized identities and polities. The early twenty-first century FT seems to be contributing to this globalizing discourse of the liberalized economy by questioning the premises of the nation state, national politics, and elections. The FT seems to carry on the interest of the internationalized investor and finance capital by trying to promote democracy and market economy in order to open up the national economies for international finance.

The practises and discourses of modern journalism have a role to play here. Modern journalism, which includes the financial journalism of the FT, has been characterized by strives for autonomic professionalism, for impartiality, as well as for independence and freedom from external control. The Anglo-Saxon press adopted these ideals of the news paradigm first during the nineteenth century, and their birth has been linked with the historical and economic conditions of news production as well as with attempts to create professional integrity and to legitimize journalistic work (Barnhurst, 2005; Pöttker, 2005a; Schudson, 2005). This tradition of impartial professionalism should however not be understood as the only constitutive element of journalism. In many cases, its importance might even be exaggerated. For instance, Michael Schudson argues that the norm of objectivity was never adopted with such fervour in British journalism as in the case of North American journalism (Schudson, 2001: 165–7). Thus rather than being only a fact-finding mission, journalism is a mixture of various elements (Carpentier, 2005; Deuze, 2005; Pöttker, 2005b), and this indeed also seems to be the case with FT's financial journalism. Covered by the language of impartial journalism, the paper takes strong political stances.

From the point of the democracy, the political imaginary of the FT has a questionable element in its cynicism towards politics, voters, and democracy. The

FT's journalism seems to contribute to the anti-political vein of the trans-national economy, undermining the principles of democracy (Kantola, 2001). The FT seems to have a master plan of politics, a pre-ordained 'black box' of economic reform that must be implemented in any case. The political imaginary of the FT journalism is thus dominated by economism – a strong belief that societal and political issues are economic issues and can be solved by economic solutions. This imaginary is based on an antithetical position towards the democratic polis: the imaginary of the economic machine, which needs to be run according to clear rules and which needs to be controlled by strong leaders; not by politics, a diversity of opinions and heteronomy but rather by a unity of opinions. The paradox is that this system of preordained order is promoted in the name of liberalism, freedom, and democracy. Thus one could say that the political imaginary of FT's financial journalism has a flavour of hypocrisy: democracy hailed in principle but belittled in practice.

At the same time, the FT seems to construct a globalizing deterritorialized elite space in the public sphere. What is left is a deterrorialized language not linked to any specific place. National and local circumstances are transformed into an 'environment' or a home base, which needs to be developed from the point of the view of global capital as sites of production and consumption. Thus democracy, elections and voters become troublesome when representing logics and ideas that might harass the advance of the capital. Globalizing capitalism, or as Marc Augé (1995) says, supermodernity, develops abstract notions, which bypass the local histories and reformulate local spaces as sites of production. There is less special meaning attached to a space. A space can be characterized by more general qualifications, which may be standardized and applicable to other spaces as well. As this unifying and deterritorialized language is loosing its links with everyday reality and local circumstances, it is used primarily for governing spaces with a globalized imaginary of productivism, which belittles the local polities and democracies as nuisances for the inevitable advance of the global economy.

Notes for Chapter Nine

[1] The selection of the research material on the 2-week period might leave out some nuances of the election coverage process. However, the majority of the election reporting is concentrated within the researched period. An explorative check of the other election stories confirmed that they were similar to the actual research material. The main advantage of the 2-week selection period is that the material is more consistent and comparable between countries as the research material concentrates on the main stories surrounding the elections.

[2] World News – Europe: Red faces in ministry over fiasco at the poll booths: High turnout reflected the strong popular interest in the election, but caught the organizers on the hop, Paul Betts, 14 May 2001.

[3] Leader: Return to the centre, 24 January 2003.

[4] Leader: Indian vote signals, 3 May 2004.

[5] Comment and analysis: Fox spurs a revolution: The former Coca-Cola salesman's victory marks Mexico's transition from one-party rule to pluralist democracy, Henry Tricks and Richard Lapper, 4 July 2000.

[6] Postal vote: Koizumi makes Japan choose between paternalism and the free market, David Pilling, 10 August 2005.

[7] Leader: Japan in transition, 10 September 2005.

[8] Europe: Leaders fall on swords as voters rise in rebellion, Leyla Boulton, 5 November 2002.

[9] Europe: Putin holds political cards after opponents trounced, By Andrew Jack and Arkady Ostrovsky, 9 December 2003.

[10] Leader: Putin power, 9 December 2003.

[11] Europe: Triumph brings Persson closer to euro, Christopher Brown-Humes and Nicholas George in Stockholm; 17 September 2002. Comment and analysis: Germany resists change, but Joschka Fischer looks ahead. Brian Groom and Haig Simonian; 24 September 2002. German elections: Schröder promises to 'push forward with renewal', Hugh Williamson in Berlin; 24 September 2002.

[12] Europe: Czechs' modest new premier faces up to huge reform challenge. Robert Anderson; 19 June 2002.

[13] Comment and analysis: Free trade with the United States and Canada did not spur wider economic reform, and limited progress towards creating prosperity is in danger, John Authers and Sara Silver; 1 July, 2003.

[14] Comment and analysis: Hail Berlusconi: The scale of the centre-right's victory suggests Italy's new premier has a mandate for change but he faces difficulties on at least three fronts, James Blitz, 15 May 2005.

[15] Europe: Portuguese PM faces tough route to 'Nordic' prosperity, Peter Wise in Lisbon; 22 Feb 2005.

[16] Lex column: Enemy of the state, 13 September 2005.

[17] Comment and analysis: A second bite for Gerhard Schröder, Heinrich Von Pierer, 24 September 2002.

[18] Leader: Time for leadership in Germany, 24 September 2002.

[19] Poll deals blow to advocates of EU economic reform, George Parker and James Blitz, 19 September 2005.

[20] Companies International: India emerges as the new star of Asia: Democracy – and growth, Daniel Bogler, 10 May 2004.

[21] Europe: Centre-right poll win boosts Slovakia's EU chances, Robert Anderson in Bratislava, 23 September 2002.

[22] Europe and International Economy: European Union hails centre-right victory in Slovakia, Robert Anderson, 24 September 2002.

[23] Asia-Pacific: Election setback for Indian reformers, Edward Luce in New Delhi, 12 May 2004.

[24] Leader: Indian vote signals, 3 May 2004.

[25] Asia-Pacific: Election setback for Indian reformers, Edward Luce in New Delhi, 12 May 2004. Leader: India's challenge, 19 April 2004.

[26] Asia-Pacific: Voters take revenge on India's leading symbol of reform, Edward Luce, 12 May 2004.

[27] World News: Jubilant Persson increases his vote, Nicholas George and Christopher Brown-Humes in Stockholm, 16 September 2002.

[28] Leader: Same Swedes, 17 September 2002.

[29] Leader: Czech chance, 17 June 2002.

[30] German elections: Business gloomy on growth prospects, By Bertrand Benoit in Berlin, 24 September 2002.

[31] Inside track: Colors of coalition, Daniel Bogler, 27 September 2002.

[32] Leader: Czech chance, 17 June 2002.

[33] Political gridlock in Germany reflects a vote against change, Wolfgang Munchau, 20 September 2005.

[34] Radical reform alarms German voters, 15 September 2005.

[35] Asia-Pacific: Voters take revenge on India's leading symbol of reform, Edward Luce, 12 May 2004.

[36] Leader: Poll Shock, 25 September 2001.

[37] World News – Europe: Norwegian electorate set to abandon party loyalties: There is uncertainty about which will emerge as biggest party, Christopher Brown-Humes and Valeria Criscione, 6 September 2001.

[38] Radical Reform alarms German voters, 15 September 2005.

[39] Comment and Analysis: France goes on sale, Victor Mallet, 18 June 2002.

[40] Leader: French lessons, 18 June 2002.

[41] Centre-left wins majority in Norwegian election, Päivi Munter in Oslo, 12 September 2005.

[42] Leader: Bush gets mandate to be strong abroad, 4 November 2004.

[43] Comment and Analysis: Hail Berlusconi: The scale of the centre-right's victory suggests Italy's new premier has a mandate for change but he faces difficulties on at least three fronts, James Blitz, 15 May 2001. Leader: Rasmussen twins, 22 November 2001. Leader: Same Swedes, 17 September 2002. Europe: Leaders fall on swords as voters rise in rebellion, Leyla Boulton, 5 November 2002. Europe: Prospect of Haider comeback looms over coalition politics, Eric Frey in Vienna, 26 November 2002. Leader: Putin power, 9 December 2003. Leader: Indian vote signals, 3 May 2004.

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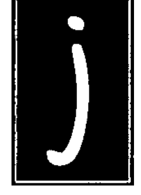

ARTICLE

Financial news journalism

A post-Enron analysis of approaches towards economic and financial news production in the UK

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ABSTRACT

The collapse of Enron and other corporate scandals have raised concerns about the efficacy of financial journalism. Based on research on where reporters get their ideas for stories and how they approach their work, this article explores the particular circumstances in which production of financial and economic news takes place. The author argues that, while reporters are generally highly sceptical about 'spin' and strongly inclined towards highlighting instances of corporate underperformance and mismanagement, the circumstances and constraints they work within nonetheless make it unlikely that financial irregularities obscured within company accounts will be detected on a routine or consistent basis. Moreover, the way in which the commercial sector is organized (with in-depth analysis generally confined to specialist media whose audiences are already financially literate) means that the task of facilitating a sound public grasp over the significance of financial and economic news developments is largely being neglected.

KEY WORDS ▪ agendas ▪ corporate influence ▪ economic journalism ▪ financial journalism ▪ financial press ▪ news decisions ▪ sources

Introduction

Why is it that the Enron collapse of 2001 came as a surprise to financial journalists and the world at large?[1] According to Andrew Gowers, editor of the *Financial Times* (*FT*), the warning signs which ought to have triggered suspicion (i.e. anomalies in the annual report for the previous year) were all present ahead of the company's sudden demise. But '[t]he press blindly accepted Enron as the epitome of a new post-deregulation corporate model, when it should have been much more interested in probing the company' (Gowers cited in West, 2005: 9).

The extent to which financial and economic news coverage adequately informs the public will most obviously flare up as a matter of concern when

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what is seen as poor journalism is accompanied by widespread and painful personal losses such as those precipitated by an unexpected collapse in share prices (Oborne, 2002: 55; Sherman, 2002). The immediate experience of financial loss or gain is, of course, not the only issue at stake. How well journalists do in interpreting and describing economic and business news and the public's grasp over these issues also has potentially important political ramifications. This was clearly evident, for instance, in the explicit emphasis given to the economy as the 'key to victory' in New Labour's 2005 campaign for re-election (Wintour et al., 2005: 1).

In the wake of Enron and other corporate scandals that have raised concern about the efficacy of financial journalism, this article sets out to explore the particular circumstances that surround production of economic and financial news content. Despite important earlier work that has analysed the role of specialist correspondents – most notably by Tunstall (1971) – relatively little discussion has taken place within academic literature about issues and features that are specific or particular to this area of journalism. Yet at the same time, it is increasingly recognized that perceptions about the economy and prevailing business climate occupy central importance within everyday political debates (Goddard et al., 1998: 33). This exploratory study opens up economic and financial news production to examination by investigating where reporters get their ideas for stories from, how they approach their work, how sources are used and which pressures they face. More generally, this article aims to consider the nature of the contribution to public knowledge made by financial journalism.

Desirable though it is that news coverage should facilitate informed public engagement with important issues of the day, there is relatively little evidence to suggest that the ways in which economic and financial developments are reported do, in fact, engender widespread and in-depth comprehension, particularly for non-specialist audiences. Earlier research that has focused on the content of news reporting has identified, for example, the ways in which accounts of economic events and processes within mainstream media may often be incomplete or excessively vague (Jensen, 1987). Research into audience reception of economic news on television has also identified numerous problems related to comprehension (Goddard et al., 1998).

Some research work has been critical of perceived partialities in economic and business news coverage and of the role played by corporate public relations (PR) in manipulating public opinion (Dreier, 1982; Glasgow University Media Group, 1976, 1980). Davis has argued that the main purpose of

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deploying corporate PR is not to sway the public at large but rather to influence 'other, mostly corporate, elites' (2000: 283) – corporations vie with each other for the attention of a target audience primarily composed of investors. In so doing, they dominate or 'capture' business and financial news agendas to the exclusion of all other interests (Davis, 2002: 70).

The notion that business news coverage is heavily influenced by powerful and self-interested corporations accords with the radical critique offered by economist J. K. Galbraith. For Galbraith (2004), economists, politicians and media are all party to an 'innocent fraud' in their interpretation of economic and financial events and all have colluded in myths (such as that of a benign 'market') that obscure rather than illuminate the grip of big business over public life.

Are economic and financial journalists systematically duped by corporate spin or do they bring to bear a critical expertise which helps contribute to an informed citizenry? By examining where financial reporters in the UK get their ideas for stories from and how they approach their work, this article aims to explore the sort of intellectual climate and circumstances in which production of this particular type of news takes place. The research underpinning this analysis took place in spring 2005 and involved observation of news meetings and a series of in-depth interviews.[2]

The findings presented below indicate that many of the pressures and imperatives faced by financial and economic journalists are, in fact, similar to those affecting specialists that cover other 'beats', for example, constraints over time and resources and the need to remain close, but not too close, to relevant sources (Tiffen, 1989; Tunstall, 1971). However, the conditions and challenges surrounding production of financial and economic news content are distinctive in some respects at least. Gowers' assessment that journalists need to stand up more firmly to 'corporate bullying' is acknowledgement of one particular sort of pressure that bears consistently upon financial news reportage (cited in West, 2005: 9). Another notable difficulty is that, as argued below, the domain from which economic and financial news emerges is one of imperfect knowledge and where the informational needs of the professional investors routinely predominate over those of journalists.

Nonetheless, the extent to which financial and economic news coverage facilitates a sound public grasp over unfolding news developments has important potential implications both in terms of civic empowerment and in terms of democracy. Thus, in exploring the conditions within which this particular sort of news is produced, a broader concern that this article seeks to consider is the extent to which the current organization of financial news coverage is conducive towards widening and advancing public understanding about the meaning and significance of events in this arena.

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Where do ideas for financial news stories come from?

The processes through which financial news stories are identified and selected for coverage typically involve some degree of interplay between a news editor and a reporter or reporters. Journalists are expected to bring forward ideas and more weight is given to those generated by specialists and experienced correspondents. In terms of where financial journalists get the ideas that they bring to their editors, some are self-generated but most stem from scanning other media (especially newswires) and sifting through official releases (e.g. company or government announcements) or semi-official data (industry surveys, etc.) that routinely flow through to the news desk.

Thus, news selection procedures are not dissimilar from many other areas of journalism. However, judgements amongst financial reporters about newsworthiness are very strongly governed by perceptions about utility and levels of financial literacy amongst target audiences. A reporter working for a specialist publication such as the *FT* or the *Investors Chronicle* (*IC*) may well have a quite different sense of what is newsworthy from a financial correspondent working, say, for a mainstream Sunday newspaper or at *CNN*.

The readership for specialist financial publications is perceived by those constructing news on its behalf as being educated, informed and relatively literate on issues related to the economy. According to an *FT* journalist:

> We're very conscious of who we are writing for. We're writing for investors such as city fund managers. Our role is to inform educated, professional investors.

Journalists working within the business sections of more mainstream media have a different sense of who and what interests they are catering to. Whereas investors and 'city people' may represent a portion of their audience (a component likely to be highly valued in terms of advertising), the general purpose of business news coverage within regular newspapers or television is rarely to speak to this constituency alone. Business news segments within mainstream media are usually intended to be accessible and appealing for non-specialist audiences – stories are expected to capture and sustain the attention of a broad, lay readership. Entertainment is therefore high on the list of priorities. One Sunday financial reporter explains:

> I think our editor is very aware that a lot of our business readers are, let's say, people that are running shops in Birmingham for whom the intricacies of hedge fund management are not going to grab them every week.

Contrasting news values are discernible in the approach towards selection of, for example, stories about companies. For news outlets primarily concerned with servicing the informational needs of investors, the key point of interest in a company story will tend to be analysis of events (particularly unexpected ones) affecting that company's financial performance and earnings and, by

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implication, its share price. At the *FT*, reporters rely heavily on routine company announcements to the Stock Exchange (e.g. about results) to generate initial ideas. In addition, self-generated ideas may emerge from something a journalist picks up in the course of investigating routine or 'diary' stories or when a sector specialist spots an emerging pattern affecting companies within their 'beat'.

Within mainstream daily newspapers, selection of stories for the business pages also relies to a large extent on 'diary' events – ideas drawn from the routine flow of daily announcements of company results, news of mergers or acquisitions, etc. Here, however, judgements of newsworthiness reflect a different understanding of what readers hope to get out of looking at business news and in which investment information is by no means seen as the main angle. Typically, one of the main drivers underlying choice of stories is whether a lay audience (i.e. a mixed readership including many who are not investors) will recognize the players involved. Another consideration is the scale of the financial events involved and whether this is likely to captivate a non-specialist audience. One daily journalist describes the process of sifting ideas for news stories as follows:

> You tend to think about the size of the deal involved – numbers. When you're talking about multi-billion pound deals then that is considered very sexy indeed. The other thing that would be considered of great value is if the companies involved are household names. And that's why retail companies get an awful lot of coverage – because everyone knows them . . .
>
> If there is a personal aspect – directors and pay-offs – then that can be helpful. People have been interested over recent years in reward for failure and 'fat cat pay' stories.

Responses gathered from a range of UK-based financial journalists suggest that judgements about newsworthiness vary according to experience, training and employment history. For some – especially those employed at specialist publications such as the *FT* – good financial journalism involves in-depth analysis intended to inform and perhaps shape investor sentiment and behaviour. For others – especially those catering primarily to lay audiences – news coverage often leans more in the direction of 'infotainment' centred around actors, events and intrigues that happen to be situated in the realm of business and finance.

Of course, these two sorts of journalistic ambitions are not always mutually exclusive and nor is it possible to neatly categorize all reporters' inclinations purely on the basis of which publication they are writing for. Indeed, many financial reporters have moved with relative ease between specialist and mainstream journalism. Nonetheless, the imperative to avoid

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alienating non-specialists is generally acknowledged as an important determinant both within story selection and in the choice of points of engagement offered by business segments at most mainstream media in the UK.

Consequently, company stories that centre around the activities, enunciations and perceived failings of prominent and well-paid corporate executives feature with extreme regularity in the business pages of many if not most UK newspapers. This conforms with Tumber's suggestion that the news values inherent within business news coverage are apt to reflect 'the media's normal preoccupation with the lives of the rich and famous' (1993: 351). One city editor accounted for the impetus to include a 'human angle' within business stories as follows:

> Focusing on people and personalities is a much easier way to bring readers in than focusing on, say, technological trends or industry structure or gearing histories.

The need for an 'accessible' approach to financial news coverage militates against the use of technical or specialist forms of financial analysis which, whilst central to the investment news circulars issued to institutional investors by brokerage houses and banks, play little or no role in the finance pages of the mainstream press. The opinions of investment specialists are often cited. but, typically, in terms that are broad and highly abbreviated rather than as a means of opening up, say, a company's revenue and cost structure to close scrutiny by a lay audience.

The different ways in which financial journalists account for how their ideas for stories emerge are indicative of how very varied this field is. Whilst news judgements within specialist financial media reflect the privileges of addressing a self-selecting and relatively economically literate audience, other media constantly struggle with the challenge of making financial news accessible and appealing to lay audiences. This latter imperative, however, is not necessarily compatible with nor conducive to the more analytical and penetrating forms of journalism through which public comprehension of events in the financial world might be strengthened.

Companies as sources

In addition to the differing attitudes reporters take toward what constitutes a good story, their approaches towards use of sources and towards verification and corroboration reveal much about how the intellectual climate within which financial news production takes place can vary. Sunday mid-market journalism for example, with its emphasis on (sometimes anonymous) tip-offs to create breaking news, may be contrasted with an insistence on accuracy and precise attribution at a publication such as the *FT* where internal guidelines

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require two and ideally three independent sources for each story. Nonetheless, at least one attribute is widely shared amongst financial journalists whose job it is to report, explain and comment on corporate performance – that is, scepticism about corporate 'spin'.

The relentless drive towards positive self-portrayal by companies is widely acknowledged by financial reporters as endemic to their field. The growth of corporate and financial PR over recent decades may be seen as part and parcel of the wider ascendancy of 'spin culture' (discussed by, for example, Davis, 2002; Franklin, 1994; Jones, 2000). A variety of methods are deployed by journalists in order to maintain an independent and critical stance. According to one financial correspondent: 'You start with the assumption that the press release is not telling you the whole story.'

To arrive at a more fully informed understanding of whatever event has taken place, a series of discussions or interviews with company and other 'expert' sources is needed to gather follow-up information. That the motives which lie behind any source choosing to speak to the press need to be considered is widely appreciated. Being well informed, building up good relationships (though not too good) and retaining one's cynicism are seen as important tools for extracting useful and 'truthful' information from corporate contacts. All the reporters interviewed in the course of this study were emphatic about the need to retain a critical distance in relation to corporate sources. As one explains:

> We *know* we're being spun to, but we do bring our own judgement to it . . . You're not going to be captivated because of a few freebies or a nice lunch.

> [T]he prospect of losing access because you take a critical stance is more of a threat to analysts than to journalists, at least at the *FT*. There have been cases of equities analysts being sacked because of writing unfavourable reports about companies . . . Companies can write to the editor and complain that I'm an asshole and that would be embarrassing. But they don't have the power to make a journalist lose his or her job.

Many regard cutting through spin and criticizing, where criticism is due, as precisely the essence of their job. They see themselves as performing a 'watchdog' role in relation to corporate performance and conduct and are therefore innately disposed towards identifying and bringing to light any problems and instances of poor management or failure within corporations. Even so, one or two acknowledge that, since hostile coverage of a company may jeopardize future access, relationships with useful corporate contacts need to be 'managed carefully'.

Some companies and individuals try to deter unfavourable press coverage by, for example, harassing journalists and/or striking up an aggressively libellous stance:

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> The *FT* obviously has a huge advantage in that, by and large, they've got to speak to us. So you can be fairly robust really. But [journalist A] who covered the whole [company X] thing had a terrible time with them because they were always trying to deny that things were going wrong. She knew things were bad. She would write things and they would ring up and complain and bully. They really did try very hard. And of course she was right. And in the end they all had to get the sack. But that's the sort of thing that can happen.
>
> Robert Maxwell for example . . . had a complete system of bullying. . . [a]nd for years got away with it. People were too terrified to write things about him because he would sue.
>
> And at the moment [company Y] are suing people right, left and centre. They're suing us. There is this fear.

As a self-protective measure, news media tend to be very vigilant about the threat posed by litigious corporate players and newspapers routinely seek legal advice before publishing stories that are potentially actionable. Journalists' awareness of this brings with it caution in relation to certain corporate players. Thus, as exemplified by the Maxwell case, bullying can be a highly effective deterrent against good journalism.

Even so, most reporters spoken to in the course of this research attach high importance to their own sense of independence and are clear about the need to exercise informed and critical judgement when it comes to interpreting and commenting on news events in the corporate realm. Speaking and cross-checking with sources *outside* the company plays a vital role in this.

Analysts

For many company news items, equities analysts employed by banks or brokerage houses to carry out investment research can be extremely helpful in disentangling the facts. Not surprisingly perhaps, they play a far greater supporting role in some forms of financial news coverage than in others. Insights that hinge on detailed financial analysis are usually not going to offer a great deal of interest for journalists whose primary mission is to seek out exciting and entertaining stories involving 'big numbers' or a lively human interest angle to bring colour to the business pages. In more conventional forms of financial journalism, however, where the emphasis is on assessing current and prospective earnings performance and overall investment appeal, journalists have much to gain from drawing on the specialist know-how that an experienced analyst can offer.

How useful analysts actually are to a financial reporter depends not only on the nature of the journalism in question but perhaps also on the reporter's own capacity for financial analysis. Whereas numeracy and basic skills in financial analysis are taken seriously in specialist publications such as the *FT*,

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surprisingly little commitment to training is available to support journalists working on the business sections of many mainstream newspapers in the UK (where the skills of financial reporting have to be learned 'on the job'). Time constraints are a more universal problem and another potential impediment to journalists unravelling the financial complexities of any given corporate development for themselves.

One business news editor explains that:

> Journalists certainly rely on analysts quite a bit to do the interpreting for them of the performance of companies and of economies . . . [and] for off-the-peg opinions and quick reactions to the things where we feel they are better briefed than we are.

Speaking with analysts offers a convenient and rapid means of arriving at an understanding of the significance of events affecting the fortunes of quoted companies. However, since analysts are not themselves entirely 'disinterested' parties, a degree of scepticism and critical distance (e.g. about the potential for analysts' viewpoints to be coloured by clients' investment positions) is, again, essential. According to one reporter: '[w]ith an analyst, you've always got to think, hang on, is he talking his book?'

The presence of analysts reflects an interesting peculiarity of this field of journalism, which is that information affecting share prices is exceptionally valuable (and, for this reason too, the manner in which quoted companies disclose any news that is material to their share price is subject to regulation). The insights relating to share valuations that analysts may arrive at are intended to benefit their clients – primarily institutional investors – rather than the public at large. Professional investors require access to useful insights not at the same time as but in advance of others. In servicing these requirements, analysts enjoy several material advantages over journalists including, (usually) a much smaller 'beat' or fewer companies to cover, much more time to analyse each one, better access to key personnel within companies and greater expertise in techniques of financial and investment analysis. These inequalities have inevitable implications for the scope journalists have when it comes to breaking stories that hinge on in-depth financial analysis.

Stumbling across 'black holes'

Although the Enron episode and other recent financial scandals have given rise to criticism of journalists (and, even more so, auditors and analysts who failed to register any irregularities), it is not clear that the prevailing order encourages or equips reporters to recognize and pursue instances of deliberate and well-disguised impropriety (Oborne, 2002: 55). As discussed above, what

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passes for business or financial journalism can vary widely. Those who put financial news together draw on a wide variety of methods of sourcing and investigation including, in some but *not* all cases, elements of financial analysis.

Serious investor-oriented financial journalism requires corporate reporters not only to comment on events as they unfold but also to reflect on whether, on the basis of whatever information is readily accessible about a company's finances and operating environment, the market valuation of its shares looks appropriate. Many reporters who operate successfully in this particular domain have both an aptitude for and interest in disentanglement of complex financial information. The need to subject all business models and espoused managerial virtues to critical and independent examination is widely acknowledged. Even so, time pressures being a commonly cited problem, it appears doubtful whether routine analysis by journalists is liable to result in consistent detection of financial irregularities that have been deliberately obscured within company accounts.

According to one news editor:

> I think financial journalists are generally good at analysing companies and interpreting and maintaining companies at arms length. Where they are less good, however, is in pro-actively investigating stories – in stepping back to see the wider picture and spotting things that deserve a closer look. This is because they don't have the time and the opportunity and perhaps the education and training needed to be more pro-active.

Lack of time for reflection on 'things that deserve a closer look' is one difficulty, but, even when a situation is spotted (say, with the help of a whistle-blower) where the financial success of a business appears questionable or unconvincing, journalists may still face many additional hurdles. Most journalists spoken with take the view that, even when armed with well-informed suspicions, gaining support for the sustained investigation needed to compile a credible body of evidence for the story is likely to prove highly challenging. One business reporter stated that the failure of journalists to detect financial problems at Enron:

> . . . is not surprising and it would not be surprising to see this happen again. I would always see this as being about *resources*. It's not that there is any disinclination to do stories like this. People at a morning conference are going to get far more excited about the story of an Enron collapse than Enron new figures . . .
>
> But if I got a tip-off that [Company X] was massively cooking the books and asked for a week off to follow it up then it would be very hard – people would be highly sceptical.

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The huge investment of energy and uncertain outcome associated with investigative reporting means that, for most financial media in the UK at least, this is supported only on an occasional basis rather than as a routine activity. So long as this remains the case, the opportunities for media to play a role in uncovering frauds such as Enron will be limited.

Economic news stories

Turning to economic as opposed to corporate business coverage in the financial press, again, some interesting contrasts are discernible on the question of what constitutes a newsworthy story. Accessibility is a major consideration although one whose meaning is interpreted differently from one outlet to the next. At the *FT*, for example, where readers are assumed to be relatively economically literate and broadly interested in how the economy may affect the landscape for investment, economic issues are dealt with regularly and at a meta-aggregate level. Economic news coverage tends to be wide ranging, taking in major international as well as domestic developments. Within sections devoted to business in mainstream media, the range of economic stories likely to receive coverage is much more limited. For UK newspapers, selection of economic news items involves a constant effort to reflect and capture the concerns of as wide a lay audience as possible. Therefore, the stories most likely to be picked are those with a personal finance dimension (e.g. house prices, interest rates, pensions) or with a political angle (e.g. the EU and monetary union, the impact of spending on public services).

The potential presence of 'spin' in the interpretation given to economic events by players in the field is a widely recognized hazard. The risk of bias most obviously arises where self-interest is at stake, as explained by one reporter:

> . . . you have consultancies or interest groups and lobbyists, trying to push a certain point and they package their information in the shape of official statistics or 'expert opinions'. For example, the association of estate agents saying 'the buy to let market is booming!'.

Although such biases are recognizable, the problem remains that self-interested parties are sometimes the main or sole repositories of relevant data – it is they who generate and control access to the expert knowledge that economics reporters rely on.

Some of the sources that economics reporters rely on are prone to extreme and/or deeply entrenched viewpoints, based not on motives of self-interest but on genuine professionally informed beliefs about how the economy works. Economics is, by its nature, a site for differing and disputed impressions of the

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same reality by 'experts' (as evidenced, for example, by the differing predispositions of individual members of the Monetary Policy Committee who advise the Bank of England ahead of each monthly decision on interest rates). So, even where self-interest is not present as a concern, economic news coverage that aims to be even handed demands of journalists an approach that is sufficiently well informed and critical to negotiate a panoply of differing professional interpretations of events past and future.

It is widely acknowledged that there is a strong political dimension to economic reporting, not least because governments are generally seen as responsible for the health and 'stewardship' of the economy (Goddard et al., 1998). Susceptibility to political prejudice is an obvious pitfall that economics journalists need to be aware of, albeit that, in the UK at least, political partisanship is an accepted aspect of mainstream newspaper journalism and one that spills over into the business pages. For specialist financial publications, the general aim is usually to achieve neutral and objective economic reportage. Whether or not neutrality is an aim, journalists who report critically about the handling of the domestic economy are liable to experience a backlash.

According to one UK economics reporter:

> . . . we see this, for example, in the way that our relationship with the Treasury develops. Public finances and public borrowing are a big deal in the UK. We see that if we report this critically, we get loads of phone calls from the political people in the Treasury. Not only the political people but also the official press officers and civil servants who shouldn't have a political outlook on things but do. They say why are you reporting us so critically and aren't we doing well. There is, immediately, a [sense that] you're attacking the government. So politics is always present.

Pressure against negative reportage can take many forms – journalists and publications whose views are critical may, for example, find they receive less favourable treatment in terms of access to leaked data about the economy or to exclusive interviews with ministers. Whilst such pressure may be seen as an occupational hazard, the consequences of it in terms of an informed citizenry and democracy are worthy of further research and analysis.

Thus, the specialist knowledge that may be required to succeed as an economics reporter is not necessarily confined to that concerned with the technical workings of the economy. Whilst a degree of expertise in this respect is obviously conducive to effective economic news analysis, it is worth noting that, within some mainstream media, little or no special distinction is made between economic and other business news, and financial journalists are expected to cover both. Relevant knowledge and experience is, however, highly important in sensitizing reporters to the agendas of relevant economic players and sources.

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A pro-business agenda?

Some studies that have considered financial news coverage have argued that journalists are, in a sense, 'captured' by corporate and pro-business agendas (Davis, 2002). The findings presented here confirm that specialist financial news coverage is primarily investor-driven in emphasis, but whether the overall agenda is so narrow as to preclude all interests other than corporate ones from finding expression is questionable.

Company news is, most certainly, a central concern within financial journalism. Even so, the findings of this study suggest that reporters generally believe that investors want and need the performance of business entities and the competencies of their managers to be dissected *critically* – something which most pride themselves as being good at, notwithstanding corporate resistance to critical coverage. As previous research has identified (Tumber, 1993), much financial news coverage is negative, pointing to failures of management, results that have disappointed, contracts that have been broken, deals that have not worked out, etc. Thus, the picture painted of the corporate world by specialist financial media is often far from rosy.

Many financial journalists recognize corporate performance as being a multi-dimensional concept. Whereas some unquestionably see their own remit as centred purely around providing investment information, others, especially those addressing more generalist audiences, interpret their role more broadly. Those in the latter category are, to some extent at least, trying to cater to the fundamental shared appetites that audiences have for a more rounded knowledge of the world around them, including in respect of the economy and financial markets.

Financial journalism does, therefore, at least sometimes turn a critical gaze towards aspects and consequences of how business is conducted that extend beyond the concerns of investors. Entertaining stories about superhero CEOs, boardroom coups and unwarranted salary increases form part of this fare. So too do more weighty news items examining corporate governance, employment practice, regional development, consumer and environmental issues. One business news editor explains:

> There are a lot of business reporters in print and in TV as well who allow themselves to take the line of least resistance and whose journalism will reflect being pushed and pulled by different corporate interests. But there are other interests trying to make their voices heard and that do get heard in the [business] media. TV manages it sometimes and print manages it a lot of the time very well. They include academics who we bring in to comment on economic, financial and political and other news we cover. Interest groups like environmental groups. Consumer representatives. And a lot of times we are responding to and seeking to get the input of groups that are speaking *against* the message that the corporate world is giving. For example, stories reflecting doubts about how much integrity

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> there is within drug companies resisting revealing the results of their research when it may prove detrimental to the fortunes of their own drugs being sold. So, I think a lot of my colleagues are aware that there are alternatives to the lines being peddled by companies. There are definitely examples where those other voices get to be heard in the debate about whatever is the business story of the day.

The claim that financial journalism is captured by business interests is not necessarily to do with the tenor of individual news items so much as about how coverage as a whole is framed and the sorts of values it serves to reinforce. For instance the weight given to 'City opinion' may be seen as reinforcing norms such as 'the market knows best'. A frequent criticism is that financial journalism involves little or no ambition to challenge or step outside the parameters of pro-market and pro-capitalist thinking.

Of course, from an investment point of view, market sentiment is an important consideration since, irrespective of whether it is correctly informed, it remains a key determinant of valuations for investment instruments. So, reportage which accurately discerns, interprets and reports on moods and movements within financial markets will find prominence because it is of value and interest to those looking to media for guidance about investment. In addition, financial journalism must itself be recognized as an active agent within market systems since it not only describes developments and responses to events but also, to a greater or lesser extent, reporters play a role in actually informing, correcting and shaping prevailing currents of market opinion. According to a financial features writer: 'You're reflecting City opinion and you're also hoping to influence it.'

Even so, it is possible to draw a distinction between describing or seeking to inform market behaviour and, on the other hand, being disposed to advocate markets as the best system for allocating resources. Several reporters questioned in the course of this research readily acknowledge that passivity in relation to pro-market ideologies is fairly characteristic of the sector. How this compares with the approach of journalists elsewhere and in the mainstream of news reporting is an interesting question that deserves attention in future research. Certainly, the evidence of this study indicates that many financial journalists in the UK feel no compulsion to challenge prevailing values and norms and do not see this as part of their own role. Some, however, are conscious that the merits of a market economy model may be debatable and, in addition, are ready to challenge 'rash assumptions' about shared values:

> Recently I was working on a show and the producer (whose job generally includes crafting headlines for the show) had written about an East Asian country where the government was prepared to enact the reforms required to meet WTO[3] membership. She'd written in a headline: '*A step in the right direction for [country x]*'. I pointed out to her that this, in itself, was a politically loaded judgement – to say that this step towards WTO membership is in the 'right' direction – and we

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> ought to be aware that in fact there may be people who would disagree that a step towards the WTO (and towards embracing a market economy system and a sort of US-based model of economics and, in some sense, politics) was a step in the right direction for that country. And she agreed that that was not an assumption that we should embody in the way we write about it.
>
> There is a tendency in our media to cover economic stories as if there is no other position to take on how economies are run other than the market-economy system. Whereas, in actual fact, there are countries right around the world that take a very different view on that, from Venezuela through to North Korea. And it's not really our job to make an assumption that one should be trumpeted over another.

Explicit dissent from pro-market thinking may be rare in financial journalism but an awareness of the need to avoid reproducing and reinforcing prevailing value systems is not altogether untypical. Many are comfortable with prevailing news values and accepted parameters for discussion of financial and economic news but some are not. A degree of pragmatism is commonplace – confinement is an acknowledged by-product of organizational and commercial pressures governing daily news production. According to one economics correspondent:

> We operate within a system. We are critical of certain things within the system but we never challenge the parameters of the system as a whole. In terms of economic development, we write about, say, whether countries have been successful in reducing their debt level but we don't ask why we have a system whereby countries have debts in the first place. We don't challenge – but I'm afraid that's the deal. If I wanted to be a campaigner I wouldn't be here. . . [and wouldn't have this platform]. I'm aware of this and sometimes it is frustrating but, on the other hand, I still think we do a good job in terms of highlighting certain things. We are not campaigning but we are working within the constraints of reality.

Financial reporters, like those in any other sector, are subject to the 'constraints of reality' – the guiding confines embodied by, for example, assumptions about newsworthiness and what readers want or about appropriate presentational formats or standard practices for newsgathering – that make production of news on a daily basis a more possible task. As previous research has indicated, shared conventions about newsworthiness, while helping to transform 'difficult decisions into routine choices', also serve to minimize the role that the preferences and judgements of individual journalists might otherwise play (Tiffen, 1989: 66–7). That this is 'the deal' may be widely accepted. But institutionalized routines and shared norms do not altogether extinguish the ambition and possibility for individuals to 'highlight certain things' and, in so doing, to re-shape accepted contours for public discourse about finance and the economy.

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Conclusions

This exploratory study of financial journalism has centred around the question of where reporters get their ideas for stories. The answer, in most cases, is that a few ideas are self-generated thanks to coming across an interesting piece of information or a trend or discrepancy from a trend but the majority of ideas considered newsworthy will be drawn from the routine flow of corporate and economic news releases and through 'cribbing' from other media. Not surprisingly, one of the main drivers underlying choice of stories is the perceived interests of audiences. On this account, a fairly sharp contrast is discernable within financial news coverage. News selection within outlets that are primarily concerned with servicing the informational needs of investors is governed by a relatively clear shared understanding of what is newsworthy – i.e. issues with potential to impact on the landscape for investment. For business segments within mainstream media, conceptions about newsworthiness are more fluid.

Financial news selection decisions within mainstream media are strongly determined by the need not to lose the interest of lay audiences. So, although news choices tend to reflect a general aim to keep audiences abreast of significant developments in the realm of business and the economy, the emphasis of what is judged newsworthy differs from specialist publications in at least two important respects. First, attention is focused primarily and in some cases almost exclusively on large corporate names, well recognized brands and, in economic news, on a handful of topics perceived to be understood by and of interest to the public at large. Second, in terms of points of engagement offered to audiences, a somewhat more varied range of concerns and issues may find representation and, in particular, entertainment is likely to feature far more strongly. Indeed, so-called financial and business news is, in some cases, so centred around personal dramas (e.g. the struggles and showdowns of ailing or arrogant CEOs or the anguish of fans in relation to acquisition of UK sports clubs by foreigners) it is difficult to be sure whether what is being offered is financial news in the guise of entertainment or vice versa.

Financial journalism is sometimes stereotyped as involving a pro-corporate bias, as though choices made about the content and framing of financial news are governed by a deliberate wish to portray corporations and their activities in a positive light. This conception is flawed. In covering corporate news, financial reporters tend to be extremely sceptical in their approach to how reliably companies account for themselves. Indeed, some journalists see corporate reportage as prone to favour negative over positive news – a point which reinforces findings highlighted in earlier research work (Tumber, 1993). Stories of competent management and stable performance,

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because they are unexceptional, are likely to be underplayed whereas much attention is focused on instances of corporate crisis or perceived failure.

Financial journalists are generally highly attuned to the requirement within their profession for a high degree of independence and scepticism. Most regard it as a primary duty, in the words of one financial news editor, 'not to let the people who are trying to pull the wool over our eyes get away with it'. Of course, the limitations of research which is highly 'media centric' in its approach (Schlesinger, 1990) – in this case, focusing on journalists' perceptions of their own independence – must be acknowledged. Further, more broad-ranging analysis of source–media relations in the field of financial journalism, to add to valuable work already carried out by Davis (2002) in respect of financial PR, offers a useful direction for future research.

A reliance on 'experts' to help explain and interpret news developments is prevalent within financial and economic news coverage. Whilst reliance on experts is not peculiar to this sector of journalism, the nature of the expertise being called upon is distinctive in various respects. The opinions of equities analysts, for example, are frequently drawn on for assistance with evaluation of corporate investment prospects. The presence of analysts denotes a realm in which specialist knowledge is highly valued. This factor is not entirely unproblematic in its implications for financial media.

Driven and supported by the needs of the professional investment community, it is analysts – not journalists – who predominate as the main repositories of expert knowledge about the true underlying state of financial health of listed companies and about the significance of unfolding events in the realms of economics and finance. Without excusing journalists from their professional responsibilities to carry out thorough and probing analysis, it is worth noting that the position that reporters occupy within the wider informational hierarchy does not strengthen the likelihood of media breaking news stories, such as Enron, that hinge on in-depth financial analysis. Nor, in this respect, are financial journalists helped by constraints over the time and resources available to support pro-active investigative reporting – a subject for complaint by one and all. Further research work that examines and compares opportunities or incentives to carry out investigative financial journalism not only in the UK but elsewhere too would be valuable, given the increasing tendency towards competition at an international level amongst financial and business news providers.

Nonetheless, the independence, intelligence and high level of critical expertise that many financial journalists bring to their coverage of events must be seen as major strengths that reinforce an enduring and, by and large, deserved reputation for strong standards of professionalism in this sector (Parsons, 1989). Financial journalism aimed at specialist audiences, while confined in its overarching purpose, frequently offers coverage of events that

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when compared with other news media is quite exceptional in the ambition of its analytical depth and range. Financial news segments within mainstream media do not share the same ambitions, in deference to the perceived resistance of lay audiences to technical analysis, but nonetheless contribute to an increasingly rich and varied infrastructure of news provision via which the public at large now enjoys ready access to commentary about all major financial and economic developments.

Financial journalists are not oblivious to their own power to shape the way that news events are accounted for. Notably, however, most spoken to in the course of this study would not immediately recognize their role as embodying any broad public responsibilities. Some refer to the 'watchdog' role reporters play in relation to corporate behaviour. Others express a sense of duty to get at the truth – to avoid being manipulated by corporate or other sources and, within economic reporting, to try to provide objective reportage on politically sensitive issues. One or two suggest they might feel differently on this question if they worked for the BBC.

A burning desire to facilitate an improved grasp on the part of the general public over business and economic issues does not appear to factor highly in the conscious understanding that financial journalists in the commercial sector have of what purposes their professional activities serve. The need for comprehensible exposition of any given story is, of course, well recognized. But this is not the same as an active sense of responsibility in relation to bringing about a citizenry that is widely informed as to the meaning and significance of business and economic events.

Previous research has emphasized the importance of the audience's ability to comprehend economic news. A good grasp of the workings of the economy and of how it is or ought to be managed is needed by the public in order to make an 'informed appraisal of politicians and government actions upon which the democratic process depends' (Goddard et al., 1998: 33). The secrets and implications of how businesses create wealth are of concern to all rather than a few. Be that as it may, the findings of this initial survey suggest that financial journalists, at least in the commercial sector (which is where the activity is predominantly located), are largely unaware of responsibilities they might perform in relation to civic empowerment and democracy.

Moreover, this research has found that the way that the sector is organized means that the task of securing a sound public understanding of financial and economic news issues is overlooked because, in a sense, it falls between two stools. Financial media that provide comprehensive and in-depth coverage are aimed at audiences who are already knowledgeable about business and the economy and whose interests are typically professionally driven. On the other hand, segments devoted to business news within mainstream media, fearful of deterring lay audiences, are generally unable to do penetrating and forensic

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analysis of economic and financial news events. Commercially led financial news production, as currently orientated, is not really designed for and is unlikely to succeed in any public educational role.

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Notes

1 Following on from irregularities in accounting which had earlier allowed operating profits to be artificially inflated, US-based energy trading company Enron was forced to disclose losses in the order of $1bn in October 2001. The uncovering of financial malpractice within Enron precipitated the largest bankruptcy in US history with major losses for investors and several legal actions taken against the company's senior executives and its auditors, accounting firm Arthur Andersen.

2 A series of 10 semi-structured and 4 unstructured interviews were carried out with financial journalists currently or previously employed by the *Financial Time* (*FT*), the *Sunday Times*, the *Telegraph*, *Investors Chronicle* (*IC*) and *CNN* in March and April 2005.

3 World Trade Organization.

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Biographical notes

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How to Succeed in *Business Journalism*
Chrystia Freeland. *New York Times Book Review*. New York.
22 August 2010.

Chrystia Freeland offers advice for print journalists working in *business journalism* in the current market for print news...and in light of the tightly-controlled media relations of companies facing financial crises.

These are grim days for print journalists: we are the auto workers of the white-collar class, toiling in an industry in structural decline (see: sale of Newsweek for $1). But this summer's best-seller list offers some relief for the world's inky-fingered wretches. The hero of our collective imaginations is a middle-aged print reporter named Mikael Blomkvist, the Swedish muckraker who co-stars in Stieg Larsson's Millennium trilogy, which is dominating beaches and airport lounges this season.

For business scribes, Blomkvist's celebrity is especially satisfying. Business journalists are the high school nerds of the newsroom, lacking the dangerous glamour of the war correspondents, the proximity to fame of the sports and entertainment writers, and the alpha-dog swagger of the political press corps. Blomkvist offers the business press hipness by association. His investigations take him beyond the ascetic world of balance sheets and offshore bank accounts to showdowns with former K.G.B. sadists. Better yet, although he is the divorced father of an adult daughter, and a smoker who runs mostly to keep his paunch in check, he is catnip to women. If James Bond were reincarnated as a crusading Swedish feminist, he would be Mikael Blomkvist.

There's just one catch: Blomkvist despises the mainstream business press almost as much as he loathes the corrupt businessmen who are his chief targets. Blomkvist, who writes for an independent magazine he helped found, accuses establishment business journalists of getting too close to the magnates they cover. They have access, he complains, but they fail to do the "real" work of uncovering corporate malfeasance.

Larsson, himself an investigative journalist, died in 2004, before the financial crisis. But if he were reviewing the books inspired by the meltdown, he would surely reiterate his protagonist's dyspeptic critique of business reporting. The best writing on the crisis has been from the inside out, starting with Andrew Ross Sorkin's "Too Big to Fail" - a vivid, nearly instantaneous account of Wall Street in 2008 that stands as that pivotal year's first draft of history.

Michael Lewis does something even smarter and more original in "The Big Short," recounting the crash from the perspective of a small tribe of investors who had the insight and the audacity to foresee the crisis and profit from it. But while Lewis writes about iconoclastic outsiders, he profiles their lives and trades very much from the inside. "I've found it impossible to write a decent nonfiction narrative without unusually deep cooperation from my subjects," Lewis explains in his acknowledgments, thanking his traders for allowing him "to enter their lives."

Lewis is "eternally grateful" to his subjects for their cooperation. Sorkin, a reporter and columnist for The New York Times, is "truly grateful" to his. One can imagine Blomkvist sputtering with rage, but you don't have to be a fictional Scandinavian social democrat to wish that business journalism in the United States was more about afflicting the comfortable and less about cozying up to them. In the spring, the high priests of American journalism at the Columbia Journalism Review published a tough critique of Sorkin by Dean Starkman, who argued that "Too Big to Fail" was on one side - the wrong side - in the "mini-struggle" between "deal journalism and the work of accountability-oriented reporters."

That article rightly highlighted the important investigative work done by reporters with a "more confrontational approach," like Gretchen Morgenson and Don Van Natta Jr., both of The Times, and Mark Pittman of Bloomberg News, who wrote a 2007 series predicting the collapse of the banking sector. But the bigger, more complicated truth about the financial crisis is that it wasn't caused by evil businessmen. The overarching story is one of systemic failure, not individual wrongdoing. It wasn't the Bernie Madoffs who plunged the world into recession. It was low capital requirements, weak limits on leverage, over-the-counter traded derivatives, soft rules on mortgage lending and global financial imbalances.

If your attention wandered as you read that list of abstract terms, you are not alone. A growing body of cognitive research is demonstrating something schoolteachers and entertainers have known for a long time: Most of us respond better to personal stories than to impersonal numbers and ideas. That cognitive bias is so pronounced that Deborah Small, a professor of marketing at the Wharton School, has found that charitable giving actually goes down if too many statistics are included in individual tales of need (and if we get only statistics and don't learn any personal stories, giving is even lower). Forget "just the facts, ma'am." Actually, forget the facts altogether.

For readers, that same bias means we are drawn to stories about people, not systems. When it comes to the financial crisis, we want heroes and villains and whathe-had-for-breakfast narratives; we are less enthralled by analytical accounts of the global financial system and the cycle of boom and bust. The Columbia Journalism Review - and Blomkvist - juxtapose the approaches of "access" and "investigative" journalists. But the real divide may be between storytellers and system analysts. (This is one of many reasons that anyone interested in the financial crisis and its causes should venture farther down the best-seller list and dip into "This Time Is Different," a lucid and unapologetically dense study of eight centuries of financial crises by the economists Carmen M. Reinhart and Kenneth S. Rogoff.)

This dichotomy goes beyond writers and newspaper front pages to our legislatures and even the campaign trail. Financial reform legislation didn't become sexy until the Securities and Exchange Commission unveiled its case against Goldman Sachs. The "fabulous Fab," as Fabrice Tourre, the Goldman trader who bet against subprime mortgages, called himself, and his colorful e-mails were a story right out of Small's research. It packed such a viscerally powerful punch that almost no one, apart from the great vampire squid's P.R. team, bothered to note that because of the firm's fine culture of risk management, Goldman was probably less culpable in the 2008 crisis than any other investment bank.

Fabulous Fab's shenanigans (and great name!) not only helped pass the financial reform bill, they cost Goldman $550 million, the biggest settlement ever paid to the S.E.C. Score one for the storytellers. But that is likely to be a temporary triumph, and not only because Goldman now prohibits its employees from using vulgar language in e-mails, presumably to ensure that the next documents the bank is forced to disgorge aren't quite so vivid.

We are living in the age of number-crunchers, not narrators. On Wall Street, in Silicon Valley, in Bangalore and in Shanghai, the new technologies and the capital flows that are reshaping our world are dominated by the people who master data dumps. This split - more than geography, more than gender, more than what your parents did for a living - may be the real class divide of our time.

Even Larsson, who created Blomkvist at least partly in his own image, knew this. That's why the more eye-catching partner in his crime-busting duo is the quasiautistic number-cruncher extraordinaire Lisbeth Salander. Female readers may be dubious of the 20-something Salander's not-totally-requited passion for Blomkvist, but what really rings false in their relationship is the idea that Blomkvist would be Salander's boss, and not vice versa. There have been reports that Larsson once told a friend that the fourth novel in the series, left unfinished at the time of his death, would follow the pair to a remote island town in Canada's Northwest Territories. But a more plausible plot would involve Salander's move to Palo Alto and the start-up of her global data mining and security firm.

What Price Journalism?

The news isn't free. That's why the media are brewing up new (and familiar) ways to pay for it

By James Poniewozik

Time, Vol. 174, Issue 3, 27 July 2009

Will ___ save journalism? Lately it seems easier to find ruminations on that subject than to find journalism itself. With advertising down and the Internet making information seem free and easy, anxious journos (for whom "save journalism" equals "save my job") have suggested numerous white knights for their profession, including Amazon's Kindle, philanthropists, micropayments, the government and the new iPhone. (Is there an app for that?)

Or coffee! Maybe coffee will save journalism! In June, MSNBC signed a deal to make Starbucks the official caffeinated beverage of its talk show Morning Joe. In 2008 a chain of TV affiliates cut a deal to place McDonald's iced coffee on anchor desks.

Those who can't sell coffee can try to sell Kaffeeklatsches. The Washington Post was embarrassed this month by a leak of its plans to charge up to $25,000 for lobbyists and executives to sponsor "salons" with public officials and the reporters who cover the fields they work in, like health care. "Spirited? Yes," a flyer said of the promised talks. "Confrontational? No." Journalism? Someday it just might be.

Some of these experiments may seem ethically dubious or just icky, but they're also examples of a simple truth: whether you read it online or watch it on TV, there's no such thing as free news. Someone, somewhere, is paying for it, be it in money or in time. And journalists are under pressure to become more creative in paying that bill.

Once, said payment came from the audience or from advertisers. Now the Internet offers all-you-can-eat info, yet advertisers are unwilling to pay anywhere near the same rates for online ads as they do for print or TV ads, and the Web has all but supplanted newspaper classifieds.

The New York Times is reportedly readying plans to start charging for online access, while a group of newspaper execs has been looking into the legality of banding together to do the same. News outlets are selling software, merchandise, club memberships--anything that people are more willing to pay for than, well, news.

It's possible, though, that nothing will save the journalism business--at least as we know it and pay for it today. That doesn't mean journalism will go away. Reporting won't go away, though foreign bureaus might. Information won't go away. Opinion certainly won't.

But somebody will have to pay--even, or especially, for the free stuff. Some journalism could become a kind of volunteer work, performed by eyewitnesses, passionate amateurs or professionals in other fields who use journalism as a loss leader to sell their books or build their brands. (That's the model of the legion of unpaid writers at the Huffington Post.) Even if you filter your own news from Twitter, you're paying in time and effort.

Those seeking to pay the bills through full-time journalism could find different paymasters. The Associated Press recently started taking investigative reports from four nonprofit journalism groups. And if newspapers can't afford investigations, advocacy groups and think tanks--which already hire research pros--could do their own: a kind of piecemeal return to the old partisan press.

Meanwhile, the advertisers who are loath to pay for banner ads at websites have shown interest in, as they say, more "integrated" forms of product-plugging. Some news sites sell companies "sponsored content" mentioning their products, while independent blogs collect payoffs for posts--positive ones only, please--about merchandise. (Where did I learn about that? From the New York Times, which had to report the story without sponsorship from Healthy Choice.)

The media of the future may be a combination of all this, plus old-school outlets that survive. They could produce good journalism. (After all, traditional news outlets aren't without potential conflict either; I review HBO series even though HBO's owner owns TIME.) But they may include funding models far different from the old church-and-state separation of content-making and money-raising.

Journalists would be foolish, though, to think we can guilt people into buying our work in part to preserve our uniquely holy calling. (Try arguing that to a laid-off factory worker.) As with any other service, people will buy it or they won't. Yes, news audiences will have to recognize that "free" information may mean more sponsorships and piper payers calling the tune. But journalists will have to accept that some members of our audience are, in fact, willing to make that trade-off, just as they live with product placement in movies.

We may not like it, but there it is. Producing something that someone is willing to pay for--while not selling out--may make our work possible. Whereas moralizing, plus a buck or so, will buy you a cup of robust, piping hot Dunkin' Donuts coffee. That one was free, fellas.

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Split investment products

Some stepping stones

By Bruce Cameron

PERSONAL FINANCE, Saturday, May 23, 1998

In this first article in Personal Finance's new Scrapbook series Bruce Cameron deals with split investment products. There is a wide range of these complex products. This week we set the scene by describing the various types of split investment products available. In the following weeks we will deal in more detail with the particular choices you have.

What are they? Split investment products go under many names and come in many forms including linked products, multi-manager funds, fund of funds unit trusts, and wrap funds.

What happens is: One company will offer you a single investment product in which to place your money; and with the product you will be offered a variety of investment choices, sometimes only provided by one company but increasingly provided by other companies. For example you could choose from the full range of unit trust funds available.

The first of these options was offered by linked product companies about 10 years ago. These companies offer a range of unit trust investments, often wrapped up in an embracing mother product, such as a living annuity.
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Business journalism ethics in Africa: A comparative study of newsrooms in South Africa, Kenya and Zimbabwe

By Admire Mare and Robert Brand

Abstract

This article aims to provide an insight into the state of business journalism ethics in Africa, firstly, through an examination of newsroom ethical policies and secondly through an exploration of the way in which African business journalists negotiate ethical decision-making in their day-to-day news processing practices. The researchers employed document analysis and semi-structured interviews to examine *Business Day* in South Africa, *Business Daily* in Kenya and *Financial Gazette* in Zimbabwe. In these African countries, business journalism has been steadily growing since the late 1960s, fuelled by the presence of robust stock exchanges and increasing debate on the issue of business journalism ethics. The research found that while all three newspapers had clear ethical guidelines in place and editors and journalists recognized the importance of ethical behavior, ethical practice did not always follow. This is largely due to the precarious economic basis of news organizations, lack of effective monitoring, and a pervasive culture of unethical behavior at some sites.

Key words: Business journalism, ethics, Kenya, South Africa, Zimbabwe

Introduction:

Conceptualising business journalism

Economics, business and financial journalism are "closely related forms of journalistic endeavour and the terms are often used interchangeably, even though there are distinctions between them" (Kariithi, 2003). This study uses the term "economics journalism" to refer to journalism about business, financial markets and economics, and uses the terms "business journalism", "economics journalism" and

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"financial journalism" interchangeably. Economics has been identified as an important area of knowledge acquisition for effective participation in modern democracies (Mogweku, 2005). Due to the importance of economics in modern societies, business news derives from, and is related to, nearly all aspects of our lives. Not only does business journalism contribute to public knowledge about the economy (Gavin, 1998), but the financial media also play a crucial role in spreading economic ideas and ideologies and setting the parameters of debate about economic issues (Brand, 2010). Furthermore, economics journalism serves a crucial informative role in the market mechanism, with the ability to move the prices of securities such as stocks and bonds (Brand, 2010). Together, those factors make economics journalism one of the most important areas of journalism in many modern media organizations (Parker, 1997).

In most of Africa, the roots of economics journalism can be traced to the continent's protracted economic crises of the late 1970s and early 1980s, when the failure of World Bank-sponsored structural adjustment programs (SAPs) thrust economics into the public limelight in many African countries (Kareithi & Kariithi, 2005, p. xi). As African nations embarked on their political transitions, the still fledging economics media kept pace, constantly advocating through their coverage the need to open up both the political and economic systems (Kariithi, 2002). African journalists have become ever more aware of their pressing responsibility to regularly monitor and scrutinize the government to ensure that its performance matches its promise (Kareithi & Kariithi, 2005, p. 120). Nowhere is that scrutiny more critical than in the management of the nation's economic and financial affairs. However, few African media organizations can show a track record of substantive economics reporting, given that economics reporting is generally a recent addition to the regular newsroom beats in much of Africa (Kareithi & Kariithi, 2005). Furthermore, an examination of African economics journalism cannot be complete without a discussion of the economics of journalism in Africa (Nyamnjoh, 2005). Many media organizations operate on shoe-string budgets, and journalists are poorly remunerated which accounts for the underdeveloped state of business journalism as a genre in Africa.

Business journalism ethics

The recent crisis in global banking, markets and economies has reminded us all of the importance of financial and business journalism

ethics (Tambini, 2009, p. 2). It has brought into sharp focus the intricate relationship between business journalism and the operations and behavior of financial and economic markets, and also the need for ethical journalism within the genre. The notion of business journalism ethics, like general media ethics, arguably has an Anglo-American ancestry (Ward, 2006; Schudson, 2001). Underpinning the notion of journalism ethics is the belief that the media have a role to play in society. As a result, debates on journalism ethics and self-regulation are often informed by a normative approach, centred on the social responsibilities of the media.

Business journalism ethics is located within the broader ambit of media ethics. Thinking around business journalism ethics therefore needs to be underpinned by a philosophy of the role of business journalism in society, including the relationship between business journalism and the market economy. Tambini (2009) has developed a conceptual model for understanding the rights and duties of financial journalists. At the core of this model is the understanding that the financial media, in addition to their informational and monitoring role, have the power to influence the prices of individual securities such as bonds and stocks. Whereas the broader discourse of journalism ethics focuses on the relationship between society and the media, business journalism ethics is, in addition, concerned with the relationship between news and markets.

Business journalism ethics addresses questions such as: What responsibility do journalists have when their stories can have direct impacts on market behavior? Should the ethical and professional standards of business and financial journalists differ from those of others such as political journalists? Should journalists avoid "panicking the markets"? What about direct conflicts of interest? How can journalists deal with conflicting responsibilities in relation to their various overlapping constituencies – to readers, investors, to corporations, to governments and to national economies? What happens when journalists themselves, or those close to them, hold shares in a company?

There is a large body of research on media accountability and professionalism globally and in some African countries which argues that the quality of media content is deteriorating (Chari, 2007; Nyamnjoh, 2005; Mfumbusa, 2008). A spike in ethical transgressions comes at a time when regulation of the media by the state has become a discredited practice (Duncan, 2010), yet many media systems

continue to grapple with the question of who media organizations should be accountable to. In Africa, governments have responded, in some cases, by tightening media laws and limiting freedom of expression and speech the in the process. The Zimbabwean and Kenyan governments are examples of this. It must be noted that Zimbabwe has since 2000 experienced a crisis which has been described as resting on the political, economic and social tripod with symptoms being bad governance, media strangulation, economic meltdown, disputed land reforms, hyperinflation, exodus of professionals and outbreak of waterborne diseases (Mlambo, 2006, p. 16).

On the other hand, Kenya hit international headlines in December 2007 following the disputed elections which resulted in the death of thousands of civilians. Zimbabwe has both a statutory (Zimbabwe Media Commission, ZMC; formerly Media and Information Commission, MIC) and self-regulatory (Voluntary Media Council of Zimbabwe) mechanisms. South Africa, on the other hand, has a transparent, voluntary system of self-regulation administered by a Press Council which has a binding code of ethics (Krüger, 2009). In the case of Kenya, the voluntary regulatory body was replaced by the official Media Council of Kenya in 2007. Kenya's statutory regulatory body has a code of ethics which the media are not bound to follow. In spite of the existence of the statutory body, concerns have been raised regarding the conduct of the Kenyan press and their adherence to the code of ethics (Mudhai, 2007). All three countries have had notable debates as regards media accountability systems. Most notably in South Africa, where the ANC government has proposed the establishment of the Media Appeals Tribunal (MAT) meant to replace the South African Press Council. Politicians in the three countries have used more or less similar arguments to justify the necessity of statutory media regulation, chief among them, the perceived ethical transgressions by media practitioners and "toothless" penal system. In Kenya, the referendum on the new constitution held in August 2010 promised a different media regulation system.

Breaches of business journalism ethics are well-documented in Europe and the United States of America. Examples are the "City slickers" case in the United Kingdom, where business columnists at the *Daily Mirror* were found guilty of "ramping", or buying shares and boosting their value through favorable reporting (Tambini, 2010). In America, a *Wall Street Journal* business writer, Foster Winans, was

convicted of securities fraud after using inside information to profit from share trading (Newman, 1996). It is unlikely that African business journalists would be immune to these kinds of ethical transgressions. However, although the literature records numerous cases of breaches of general journalism ethics (see, for example, Chari, 2007; Kasoma, 1996; Ndangam, 2006) breaches of business journalism ethics have not been systematically documented.

One case of "brown envelope" – bribery – has been reported in South Africa, when a reporter at the *Cape Argus* newspaper admitted receiving money from a politician in return for negative coverage of his political opponents. But other, more sophisticated forms of influencing journalists also exist, such as the payment of a fee to CNBCA, the South African-based financial television channel, by the Gauteng provincial government in return for "preferential and regular programming and content slots to the Gauteng provincial government" (Steyn, 2010). As Harber (2010) points out: "The path to brown envelopes is strewn with gifts and freebies. Hand-outs to journalists are commonplace, and only a few media institutions keep tight rules and practices on how to deal with them." What, then, are those rules, and how are they institutionalized?

Codes of ethics are at the core of media regulation, as they define the standards that are expected of the media in their reporting (Duncan, 2010). A code of ethics is a document that sets out guidelines aimed at proscribing certain types of conduct deemed unethical, and identifying other types of conduct as being ethical (Retief, 2002). Codes act as a stock of knowledge of what constitutes common business news standards. On the one hand, it allows the public to know what behavior to expect from journalists and further know the standards against which to measure their performance (Duncan, 2010). Professional norms of journalists are of two types; technical norms which deal with news gathering and reporting, and ethical norms which embrace the newsman's obligations to the craft and include such ideals as responsibility, impartiality, accuracy, fair play and objectivity (Breed, 1955, p. 108). Codes can be either statutory or non-statutory, depending on the context in which it is used. For instance, in South Africa, the Broadcasting Code has legal force whereas the Press Code does not; in countries such as Zimbabwe and Kenya, journalism codes of ethics are enforced by statutory or professional bodies and voluntary membership tribunals such as the Voluntary Media Council of Zimbabwe. The existence of codes of ethics at media organizations,

however, suggests more about the aspirations of journalists or their employers or regulators than about the actual practice of journalists.

Research methods

The objective of this research is twofold: to compare the policies – in the form of ethics codes – governing ethics at the three subject newspapers; and secondly, to probe how these are operationalized by editors and journalists. The choice of *Business Day, Financial Gazette* and *Business Daily* was determined by the fact that all the news organizations engage in specialized business reporting, operate in countries with vibrant stock exchanges and are market leaders in terms of readership figures in their respective countries.

A document analysis was carried out to identify and compare salient policy features, while semi-structured interviews were conducted with business editors and journalists to examine how journalists negotiate ethical concerns and guidelines in their everyday practice. The business news editors of the *Business Day* in South Africa, the *Financial Gazette* in Zimbabwe, and the *Business Daily* in Kenya were interviewed, as well as three business journalists from each newsroom based on an availability sampling technique. A total of nine journalists were asked to answer a set of related questions about business journalism ethics, causes of ethical transgressions and monitoring and enforcement of codes of ethics within newsroom contexts. Interviews in Kenya were carried out face-to-face, while those in South Africa were conducted by telephone and in Zimbabwe by a combination of telephone and e-mail. Interviewees were promised anonymity in the belief that that would allow them to respond more freely. The interviews enabled the researchers to complement information obtained from the document analysis with journalists' own experiences of and perceptions arising from putting those ethical guidelines into practice.

Findings and discussion

Only one of the newspapers, Kenya's *Business Daily,* has its own code of ethics, which addresses pertinent business journalistic moral dilemmas. The *Financial Gazette* of Zimbabwe does not have its own code, but relies on the industry-wide code subscribed to by the Voluntary Media Council of Zimbabwe in conjunction with the Zimbabwe Union of Journalists. South Africa's *Business Day* subscribes to a group code of ethics – the BDFM code of ethics – which applies to all the company's publications, and which focuses on general as well as business journalism.

A range of themes recurred in the three codes of ethics, and they referred to similar journalistic responsibilities and duties, corroborating Limor's (2006, p. 168) observation that journalistic codes the world over display "remarkable similarities in the ideas, or standards of conduct and the basic tenets which are advocated". Common principles among the three codes include: the importance of accuracy; the duty to refuse bribes; avoidance of plagiarism; the obligation to honor confidentiality of sources; respect for people's right to privacy; the imperative to avoid conflicts of interest; fairness in news gathering processes; integrity of the source and the journalist; the primacy of freedom of expression and comment; and the duty to correct mistakes. While these principles apply to journalism in general, this article analyzes and compares the treatment in the codes of those principles which have a particular relevance for business journalism. They are: accuracy/truthfulness, the duty to refuse bribes, avoiding conflicts of interest, and resisting pressure from advertizers or sources of information. Although at the general level, the three codes are similar, on the level of individual principles there are qualitative differences. For example, although both *Business Day*'s and *Business Daily*'s codes contain sections on conflicts of interest, the former focuses on acceptance of gifts and the latter on share ownership by journalists.

Accuracy

The three codes are remarkably similar in the way they address business journalists' fundamental obligation to be truthful and report the news accurately, and what should be done in the event of inaccurate reporting. There is a clear recognition of the importance of accuracy in business journalism, where news can have an immediate impact on markets by moving the prices of securities. All three codes also recognize the importance of fairness in reporting, and include the responsibility to correct mistakes promptly. *Business Daily*'s code of conduct and ethics states the following with regard to accuracy: The fundamental objective of a journalist is to report fairly, accurately and without bias on matters of public interest. All sides of a story should be reported. It is important to obtain comments from anyone mentioned in an unfavorable context. Whenever it is recognized that an inaccurate, misleading or distorted report has been published, it should be corrected promptly. Corrections should report the correct information and not restate the error except when clarity demands.

(Code of conduct, *Business Daily*, Kenya)The *Financial Gazette*'s code of ethics echoes the above sentiments:

> Media practitioners and media institutions must report and interpret the news with scrupulous honesty and must take all reasonable steps to ensure that they disseminate accurate information and that they depict events fairly and without distortions. [...] Before a media institution publishes a report, the reporter and the editor must ensure that all the steps that a reasonable, competent media practitioner would take to check its accuracy have in fact been taken. (Code of ethics, *Financial Gazette*, Zimbabwe).

Business Day's code operationalizes the quest for accuracy and fairness as follows:

> Take every possible step to ensure that both praise and criticism are backed up by knowledgeable, independent sources, ensure that anyone who is criticised is given an opportunity to respond, make an active attempt to seek out and highlight the independent view, and written editorial policy for each publication that is distributed to all employees. (Code of ethics, BDFM, South Africa).

It is clear that the codes regard accuracy, honesty and fairness as foundational journalistic issues, and underscore the need to ensure fair and balanced reports of events. Distortion of information by exaggeration, by giving only one side of a story, by placing improper emphasis on one aspect of a story, by reporting the facts out of the context in which they occurred or by suppressing relevant available facts are marked as ethical violations. *Business Day*'s code further recognizes the importance of accuracy and truthfulness in the particular role played by the financial press in the market system, and the importance of ethical conduct for the credibility of the newspaper:

> As journalists working for the financial press in particular, we have to be unusually conscious of these ethical questions because our reports can dramatically affect investor sentiment. Journalists who work for the financial press make decisions daily which can affect thousands of employees and investors. In short, dishonest journalism or deceitful journalists can do immense harm to the publication, undermining its credibility and, ultimately, driving away readers and advertisers. (Code of ethics, BDFM, South Africa)

Bribery

Bribery of journalists has become ubiquitous in some African countries (Ndangam, 2006; Chari, 2007), and business journalists are not immune to temptation. It was clear that all three codes consider bribery as a threat to journalistic integrity which compromises the credibility of the media organization. The codes also recognize that the corrupting effect of bribery does not depend on a *quid pro quo* by the journalist, but that a gift or "freebie" may also compromise the independence and integrity of a journalist. The Nation Media Group code of ethics exemplifies the zero-tolerance approach to bribery:

> Gifts, bribes, brown envelopes, favours, free travel, free meals or drinks, special treatment or privileges can compromise the integrity of journalists, editors and their employers. Journalists, editors and their employers should conduct themselves in a manner that protects them from conflicts of interest, real or apparent. (Code of ethics, Nation Media Group, Kenya).

This extract reflects that the organization would like its business journalists not only to avoid conflicts of interest but also the appearances of such conflicts. All situations capable of creating undue familiarity are expected to be avoided or handled cautiously. The BDFM code of ethics calls upon business journalists to desist from accepting gifts and bribes. It cautions:

> BDFM employees should not accept gifts from companies, sources, suppliers or customers in excess of R200 [USD30]. All gifts of whatever value should be declared to the editor or his/her representative and the recipients are encouraged to hand them over to the editor/representative for the annual Christmas raffle. (Code of ethics, BDFM, South Africa)

On direct bribery – where a *quid pro quo* is expected – the BDFM code states: "Journalists should never undertake to publish or not publish any material in exchange for favours of any description." It also includes a reference to a ubiquitous feature of South African journalism; corporate-sponsored travel.

> Journalists must under no circumstances commit the paper to publishing a story about a company or other organisation in return for a trip. Any story based on a sponsored journey must be as balanced and well-researched as any story written in the newsroom. As with

> any other story, anyone taking a trip should make a point of seeking out opinions other than those of the sponsor, e.g. competitors, analysts, other governments. Paid accommodation and transport while on assignment may be accepted on the sole criterion of whether it benefits the publication. All invitations must be routed in writing through the editor or whoever the editor delegates. (Code of ethics, BDFM, South Africa).

Financial Gazette's code is also explicit about bribery: "Media practitioners [...] must not publish or suppress a report or omit or alter vital facts in that report in return for payment of money or for any other gift or reward."

Conflicts of interest

Two of the codes – those applying at the *Business Daily* and the *Business Day* – include rules regulating coverage of companies in which the journalist owns shares. Such rules are a near-universal feature of business journalism ethics codes in the Anglo-American tradition (Tambini, 2010), and are instituted in addition to legislative measures designed to prevent insider trading or market manipulation. However, while recognizing the need to regulate share ownership by business journalists, ethics codes deal with the issue differently. Some require share ownership to be disclosed to editors or to readers, while others prohibit journalists from owning shares in companies they cover. The *Business Daily* code requires business journalists not to write about shares in whose performance they know that they, their close families or associates have significant financial interest, without disclosing the interest to the editor:

> Even where the law does not prohibit it, journalists should not use for their own profit financial information they receive in advance of its general publication nor should they pass that information to others. They should not buy or sell, either directly or through nominees or agents, shares or securities about which they intend to write in the near future. Utmost care should be exercised by journalists in giving any interpretation to financial information. (Code of conduct, *Business Daily*, Kenya).

Business Day's code of ethics, on the other hand, does not restrict share ownership by its journalists, but requires disclosure: "Where a journalist has an interest and/or is a player in an industry, he/she should request the newsdesk to disclose this at the bottom of the article, or to assign the story elsewhere."

Another potential conflict of interest occurs where journalists do paid work outside their news organization, known as 'moonlighting'. The *Business Daily* and *Business Day*'s codes of ethics address the potential conflict of interest created by accepting outside work. *Business Day*'s code states: "All freelance work conducted must be cleared first with the editor or his representative."

Business Day's code also recognizes the potential of conflicts of interest arising out of membership of civic, political or lobby organizations:

> Journalists should avoid any activity that could impair their impartiality. Journalists' civic duty or political beliefs could very well entail support for or membership of an organisation or a movement. But if the organisation forms part of their reporting responsibility, they should not accept payment from the organisation concerned or hold an executive post. Where potential conflict exists journalists have a duty to inform the editor. Failure to do so will be construed as a breach of this code. (Code of ethics, BDFM, South Africa)

Pressure or influence

Pressure refers to any force or influence which causes a journalist to feel strongly compelled to act in a manner desirable to the source of the force or influence (Oloruntola, 2007). The three codes address this ethical dilemma in different ways. The *Financial Gazette*'s code cautions journalists to be wary of advertizers' and politicians' influence on news reports:

> Media practitioners and media institutions must not suppress or distort information which the public has a right to know because of pressure or influence from their advertisers or others who have a corporate, political or advocacy interest in the media institution concerned. (Code of ethics, *Financial Gazette*, Zimbabwe)

The *Business Daily*'s policy guidelines specifically address advertisements and public relations material use:

> All stories based on PR material so used will, however, be re-written in the news style of the Group, any self indulgence removed and its inclusions judged solely on its news value. Special care will be taken, however, not to alter or misrepresent the essential factual content of the PR communication. The media will not allow any advertisement or commercial that is contrary to these ethical principles. (Code of conduct, *Business Daily*, Kenya)

Despite small differences evident in the three codes, it is clear that pressure is acknowledged as impairing journalists' judgement and compromizing objectivity. Pressure is conceptualized as anything exerting influence from politicians, to public relations firms and advertizers. Journalists are called upon to maintain their credibility by ensuring the "so what" question is addressed in all news articles involving powerful social actors such as advocacy or political groups.

Negotiating ethical issues in business journalism practice

Financial journalists operate within a framework of rights and duties which institutionalizes a particular ethical approach defined by their role in the market system (Tambini, 2010). Business news can have direct and powerful impacts on markets (Thompson, 2000; Roush, 2006; Tambini, 2010). This raises fundamental questions about the responsibilities of financial journalists. Business journalists are caught up in an intercalary position which on the one hand requires them to play a watchdog role in the system of corporate governance; and on the other, to be ethical when dealing with the reflexive nature of their relationship with markets (Tambini, 2010, p. 162). Journalists interviewed appreciated the centrality of business journalism ethics in this position. A reporter at the *Financial Gazette* put it thus: "We as business journalists have enormous power to influence business decisions [...]. Hence ethicality is of paramount importance."

There was consensus among interviewees about the importance of codes of ethics in relation to the coverage of markets and business corporations. Business journalists interviewed also tended to agree on the key challenges they face, although they were less unanimous on how to respond to them. Some of these will be discussed in turn.

Pressure from advertizers

During interviews with business journalists, pressures from or on behalf of advertizers were cited as major impediments to ethical news production. Pressure may come from external sources, but often also from within the newspaper management. This was evident to a greater extent at the newspapers in Zimbabwe and Kenya than in South Africa:

> In the case of Nation Media Group, bribery cases have been rare, but threats to cut advertising if the story is not toned down are rampant. There are companies which, if they threaten to pull out

> advertisements, even editors are forced to kill stories in order to protect the lifeline of media companies. (Business reporter, *Business Daily,* Kenya*).*
> Advertising is a major artery in the existence of media organisations hence 'those who pay the piper call the tune'. At times, you can get a call from the CEO or editor to kill certain stories in order to safeguard advertising revenue. The message is: Don't endanger the flow of the stream lest we are not able to pay you at the end of the month. (Business reporter, *Business Daily,* Kenya)

> I was once faced by a predicament, where I was supposed to kill a story because it was stepping on the toes of one of our major advertisers. In fact, the boss phoned me to drop the story and focus on other newsworthy stories. (Business reporter, *Financial Gazette,* Zimbabwe*)*

Pressure from news sources

News sources exert control through selective granting or denying of access, the threat or actuality of lawsuits, or by relying on personal relationships with media executives who have the power to shape the news agenda. Interviews with business journalists in the three media organizations confirm that businesses exert enormous pressure on the business press, partly due to the "embedded" nature of the relationship between the business press and the market. Pressure from news sources appeared to be more pronounced in Zimbabwe and Kenya than in South Africa, although the phenomenon was cited by journalists at all three sites:

> At times you meet cunning CEOs who try by all means to push their corporate news angles. In this work of ours if you refuse to budge then he or she will approach the next guy on the line. He can be strategically located above you, which means if he manages to influence that one you have no choice but to run the story. The whole process of news production is infested with power dynamics which CEOs know how to manipulate to their advantage. Some CEOs bargain at the top level with your CEO before you are assigned to cover the story. Most of these executives have honed these social capital and networks over the years, hence they can always scratch each other's backs without you understanding the dynamics of source cultivation. They won't endanger those social relations for anything". (Business reporter, *Business Daily*, Kenya)

Insider trading

Most codes of ethics on business journalism, especially in America and Europe, include strict rules to prevent insider trading (Tambini, 2010). Insider trading refers to the practice of using information that is not in the public domain to invest in securities such as shares for individual gain. In many countries, including South Africa, this is against the law and in breach of stock exchange regulations. Respondents in this study stated that insider trading cannot be ruled out, even where ethics codes have rules on share ownership and trading by journalists. An interesting case is that of the *Business Daily* in Kenya, which is situated in the same building six floors above the Nairobi Stock Exchange. Journalists are well aware of the potential for unethical behaviour created by this close physical proximity with the market they cover:

> We have not received any complaints thus far. However, I can say there is no concerted programme group-wide to monitor business journalists. I must hasten to say that not receiving complaints doesn't mean it's not happening and will not happen in future. (Business Editor, *Business Daily*). The Nairobi Stock Exchange is located in the first floor of the Nation Media Centre. We know the results ahead of everyone because we are strategically located close to the stock exchange and also due to our journalistic privileges. (Business reporter, *Business Daily*, Kenya)

Reporting on companies in which the journalist owns shares was seen as a conflict of interest, though respondents differed on how newspapers should deal with the issue:

> I know of some business editors who own shares on the local bourse and they still write editorials and stories on the performance of those counters. It defeats the whole notion of conflict of interest, but business journalism is still underdeveloped in this country and the issue of ethics exists in theory but not in practice. (Business reporter, *Financial Gazette*, Zimbabwe).

Market manipulation

Market manipulation, also known as "share ramping", is one of the strands of business journalism ethics which is not specifically addressed in the codes of ethics from the three media organizations. Financial journalists can have impact on share prices through recommendation and thereby profit by selling shares on in the short term. During interviews with business journalists, it was clear that most of them are

aware about the influence financial media can have on the prices of stocks and bonds:

> Business information is very sensitive and valuable hence we as business reporters are at an advantage to influence the market. (Business reporter, *Business Day,* South Africa). We cannot run away from the fact that business journalism is a very sensitive genre, where the impacts of news reports are far too great. One story can turn the whole business organisation up-side-down in a split of hours. It requires rigorous balance, more caution and higher level of ethical judgment and integrity". (Business editor, *Business Daily,* Kenya).

Conflicts of interest

While all genres of journalism face issues of conflict of interest, research has shown that such issues are more pronounced in relation to financial journalism (see Banda, 2010; Rumney, 2009; Tambini, 2010). The intercalary position of a business journalist in relation to the interest of the reader, investor or market makes such conflicts unavoidable. On the one hand, business journalists see themselves as information providers for market participants; and on the other hand they have a watchdog role over those very market participants (Tambini, 2010). One such conflict, already mentioned, concerns ownership of shares of companies which a journalist covers, a situation which may nurture the temptation to withhold information that could hurt the company or publish information that favors it, or engage in profit-driven market manipulation (Tambini, 2010).

While respondents were aware of the potential conflict of interest created by owning shares, some thought it did not constitute a serious problem. The economic condition of journalists in Africa was cited as a justification for investing in shares and profiting from inside information: "The paradox which business journalists are faced with everyday is whether to give market intelligence to others to benefit while I remain mired in poverty?" (business reporter, *Business Daily,* Kenya).Other respondents, however, believed that the poor salaries of journalists eliminated the possibility of market manipulation and insider trading: "Most of us have access to market intelligence in terms of the local stock exchange, but lack the capital base to use that information to our advantage" (business reporter, *Financial Gazette,* Zimbabwe).

Moonlighting, which is another ethical dilemma which falls under conflict of interest, was also identified as rampant in Zimbabwe and Kenya. Some respondents justified moonlighting, or outside work, by referring to their poor salaries, even though they recognized the potential for conflicts of interest. In Zimbabwe, a respondent said, taking two jobs was now the norm among journalists. He imparts: "Freelancing is more lucrative than real work. In fact, freelancing pays per story while full-time work pays a low flat salary which means the more stories one files the better the returns" (business reporter, *Financial Gazette,* Zimbabwe).

Disclosure

A related question is whether journalists should disclose their financial interests, for example ownership of shares in a company they cover. Most business journalism ethics codes, if not banning share ownership outright, require that journalists disclose their interests either to editors or, in some cases, to their audience (Tambini, 2010). In the case of codes of ethics analyzed for this study, journalists are expected to declare only gifts received at corporate functions. Most codes are silent on the issue of share ownership except the *Business Daily,* which bans share ownership. *Business Day* requires journalists to disclose share ownership to readers at the bottom of an article. Respondents felt, however, that disclosure rules would be ineffective because they are difficult to police:

> How do we ensure business journalists are not trading in shares via their spouses or families? Share ownership is a private issue which is difficult to police. Investment decisions are private issues where disclosure is difficult to inculcate. (Business reporter, *Business Daily*, Kenya)

At the *Financial Gazette,* a respondent stated that disclosure rules were not policed because executives simply assumed journalists' relative poverty precluded share ownership: "Disclosure of share ownership is not an issue at all. No one bothers you because they assume you cannot afford shares in the first place" (business reporter, *Financial Gazette,* Zimbabwe).

'Brown envelopes' and other gifts

The causes for corruption in the newsrooms are varied and multiple. In most cases where it occurs, corruption is fuelled by poor working

conditions, greed, materialism and hunger for media coverage by business enterprises (Ndangam, 2006). In Zimbabwe and Kenya, some respondents in this study claimed personal knowledge of corrupt practices:

> Most Zimbabwean journalists make a living through getting kickbacks from news sources whom they interact with on a day-to-day basis. (Business reporter, *Financial Gazette,* Zimbabwe). In Kenya, inducements take place in times where information is being hidden and malpractices are being concealed. In cases, where a business organisation is trying to hide something, then you expect brown envelope journalism to be the last resort. (Business reporter, *Business Daily,* Kenya)

In South Africa, one respondent, while not having personal knowledge of bribery, did not rule it out: "Not hearing about complaints related to ethical violations does not mean nothing is happening. [...] It may be happening behind our backs."

Involvement in bribery appears to be driven by economic circumstances and supported by a pervasive culture of unethical behavior, even amongst senior executives:

> I cannot afford to be ethical, when everyone including our bosses are accepting sponsored trips abroad and kick-backs in order to accommodate certain stories in the newspaper. At the end of the day, someone would say who would I harm if I accept a bribe for a story that is truthful? (Business reporter, *Financial Gazette*, Zimbabwe).

To tell you the truth, journalism in Zimbabwe does not pay adequately to live comfortably despite the status associated with journalism. We are seen as celebrities by our readers but the truth is that we still have bills to pay like anyone else, we have families to take care of and needs to meet. Yet we earn peanuts. (Business reporter, *Financial Gazette,* Zimbabwe)

At the end of the day, low income condemns you to accepting sponsored trips for stories and other gift exchanges. In most cases, inducements take place at times where information is being hidden and malpractices are being concealed. In cases, where a business organization is trying to hide something, then you expect brown envelope journalism to be the last resort. (Business reporter, *Business Daily,* Kenya)

It is clear from the foregoing that brown envelope journalism manifests itself in different shades in different contexts. For instance, sponsored tours, corporate gifts such as t-shirts, diaries and cash inducements are all part of the "media gift exchange". Hydén (2006, p. 73) refers to this as "the economy of affection", that is, "investing in reciprocal relations with other individual as a means of achieving seemingly impossible goals". There is a very thin line separating sponsored visits from cash inducements because both strategies are meant to elicit positive media coverage. The above extracts corroborate Ndangam 's conclusions (2006): journalists in Africa pay lip-service to objectivity and autonomy while remaining committed to corrupt practices. Although editors mentioned that they take the issue of bribery seriously, it seems that gifts and bribes exchange hands in newsrooms in Kenya and Zimbabwe. Interviews confirmed that some business journalists have relationships with politicians and business people which violate their institutional codes of ethics and foundational principles of journalism.

Enforcement and monitoring of code of ethics

Concerns about monitoring and enforcement of codes of ethics were raised by all interviewed editors. They revealed that there are many challenges associated with enforcing and monitoring individual business reporters' conduct in the field. Business editors mentioned that it is difficult to keep a hard line stance against ethical transgressions due to peculiar challenges facing African newsrooms such as lack of transport, low advertizing revenue and massive labor turnover. Editors sometimes allow journalists to indulge in unethical behavior – such as accepting sponsored travel opportunities – because their publications do not have the resources to pay for travel. In other cases, editors simply rely on the integrity of journalists, with no active monitoring of behavior or policing of the ethics codes:

> We operate on shoe-string budgets which makes it difficult for us to provide transport to our reporters for fieldwork. At times, we allow journalists to go for sponsored trips because without such support, news gathering may grind to a halt. In the end, monitoring journalists in the field is difficult. (Business editor, *Business Day,* South Africa).

We tell our journalists that the integrity of an individual is as good as the integrity of the organization. In fact, you cannot build an

organization of integrity with unethical individuals. It's a two-way process. It is difficult anyway to monitor reporters because as an organization we don't have such intelligence gathering mechanisms. We have no capacity hence we rely on goodwill. (Business editor, *Business Daily,* Kenya)

Although it may be difficult to generalize it seems apparent from the above extracts that business editors acknowledge that monitoring and enforcement of codes is an impossible task which transcends human resource policies to embrace what White (2010) calls "ethics of system awareness" and respect for the "ethos of professionalism". It has emerged from the interviews that the mere existence of a code of ethics is no guarantee for ethical conduct, as the following extract confirms:

> Ethics is a living entity, which, like constitutions and laws, require constant refinement with changing times in order to cope with peculiarities of business news gathering. Ethical challenges keep on becoming more complex and sophisticated as economies evolve. Having a code of ethics is not an end in itself but a start of a journey towards promoting professional behaviour in the newsroom. (Business editor, *Business Daily,* Kenya)

Neither can a code provide a comprehensive 'road map' for ethical behaviour in any circumstance:

> There is no document that can address all the eventualities in the field. At the end of the day, ethical guidelines continuously evolve on a day-to-day basis, as business journalists interact with editors. It's about instantaneous reactions to moral dilemmas in the field. (Business editor, *Business Day,* South Africa)

At one newspaper, a system was implemented that relies on readers to alert the newspaper regarding ethical lapses. Although this resulted in a number of complaints from readers, the system wasn't wholly effective:

> When we began, we received a lot of complaints from readers. However upon investigation, we realised that most complaints were personal fights between the accused reporters and complaints. Most complainants when called upon to come and substantiate their claims, they chickened out. (Business editor, *Business Daily*, Kenya)

Conclusion

While each of the financial newspapers in this study had ethical policies in place, and journalists and editors recognized the importance of ethical behavior in the field of business journalism, there was, in some respects, a disconnect between policy and practice. Ethics codes reflect the aspirations of newspaper publishers and journalists, rather than actual practices. While journalists were aware of the existence of ethical policies, they were not always familiar with the details of those policies, and in some cases, such as restrictions on share ownership, not always in agreement with them. All three ethics codes included measures to prevent bribe-taking, but in two of the countries – Zimbabwe and Kenya – it seemed that brown envelope journalism is an accepted practice, and in South Africa, related practices such as freebies and sponsored travel are ubiquitous. This is due to the precarious economic basis of the news organizations, which do not have the resources to pay journalists competitive salaries or to fund travel for journalistic purposes. The link between economic circumstances and ethical behavior is illustrated by the fact that journalists in Zimbabwe and Kenya seemed more tolerant of brown envelope journalism and related practices than their counterparts in South Africa, where media organizations are far more profitable and journalists, as a consequence, better remunerated. Unethical journalism cannot be justified by economic circumstances, but neither can it be addressed without addressing the economic basis and status of news organizations and journalists.

A second aspect that needs to be addressed in order to improve ethical behavior in the business media is monitoring and policing of ethics rules. At all three newspapers in this study, respondents admitted that monitoring was not taking place and that editors relied on the integrity and honesty of journalists. Experience has shown, however, that unethical practices thrive when ethics rules are not monitored and enforced (Chari, 2009; Ndangam, 2006). Lack of resources was again cited as the main reason for the absence of effective monitoring.

Lack of enforcement of ethical rules, together with the economic circumstances of journalists, result in a pervasive and tolerated culture of unethical behavior, even among senior editorial executives. This was evident to some extent from responses of journalists in Kenya and Zimbabwe, and, to a lesser extent, in South Africa. Incidents were cited, for example, of pressure being brought to bear by senior editorial executives on behalf of advertisers; share ownership rules being

disregarded; and freebies and sponsored travel being tolerated. While such a culture persists, improvements in ethical behavior will obviously be difficult to effect.

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Professional Socialisation and Training of Business Reporters in Malawi: A Case Study of *the Daily Times* and *the Nation* Newspapers

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Abstract

In the past few decades, the proportion of business news compared to general news has increased tremendously across all media platforms in Africa. While the critical role played by business journalism is recognised, little is known about the people who write and report such news. Most studies on business journalism have tended to focus on analysing the content of business news, rather than the specific processes through which business journalists are socialised and trained. The findings of this study are drawn mainly from in-depth interviews with business reporters and editors at two leading newspapers in Malawi, The Daily Times and The Nation. Two major findings emerge from the study data. First, business journalists vary in their educational and professional backgrounds, as well as the reasons for working on this beat. Second, the majority of them have no prerequisite formal education and training in business journalism. The study recommends that business reporting should become an integral component of journalism education and training programmes in order to adequately prepare journalists for effective coverage of business issues.

Key words: business journalism, education, mentoring, training, socialisation, specialisation,

Introduction

The professional socialisation and training of business journalists remains an underdeveloped area of research in Africa. A lot of studies conducted so far have tended to devote more effort to content analysis, examining how the business press report specific issues and events. For example, Kariithi and Kareithi (2007) did a critical discourse analysis of media coverage of the anti-privatisation strike of 2002 in South Africa, Kula (2004) investigated the coverage of inflation news by the South African print media while Manda and Chirwa (2007) examined budget reporting trends in Malawian media. Considering the increased growth and importance of business reporting across media platforms in Africa in the last decade and the contributions business journalists make to the debate surrounding the political economy of host nations, research on the professional socialisation and training of such group of specialised reporters remains a worthwhile area of inquiry.

The present study explores the professional socialisation and training of business reporters in Malawi. The objective is to understand the process by which people become specialised business news reporters. The study addressed the following key questions:

1. What motivates journalists in Malawi to venture into business reporting?
2. What processes do the journalists follow to become specialised reporters?
3. What mentoring process do they undergo?
4. What education and training do the journalists possess?
5. What education and training do the reporters believe is needed to effectively report about business?

Business journalism as a sub-field of news reporting

Business journalism refers to all reporting that is written not only about businesses but also on the economy (Roush 2006: 8). According to Kariithi (2003), three closely related forms of journalistic endeavour; business, economics and financial journalism are often used interchangeably even though there are distinctions between them.

Economics journalism refers to the coverage of national and international economic events and issues, business journalism comprises the coverage of local economic issues in an in-depth fashion while financial journalism provides a micro level perspective into financial markets (Kariithi, 2003:153). In this study the term business journalism is used to refer to all the three.

Roush (2004:2) observes that there is no more important work in today's media than that of a business journalist and as such vibrant business reporting is being encouraged in emerging democracies and emerging economies. Welles (2001:18) contend that this genre of journalism has acquired special status, as manifested in special newspaper sections, television and radio programmes as well as specialised publications and special editorial teams tailored to business. Business journalism has thus emerged as a distinct and legitimate news reporting sub-field with a number of specific practices and norms of its own (Kjaer and Slaata, 2007:38).

Business journalism in Malawi

Although business news has been a main offering of Malawian news media for many years, the institutionalisation of business reporting as a specialised area of journalism practice is a relatively new development. It dates back to just about twenty years ago. As Chimombo and Chimombo (1996) put it, the defunct *The Malawi Financial Post* and *The Malawi Financial Observer* emerged in the early 1990s as potential business news outlets, but they contained more political than financial news. Thus, to date Malawi does not have a free-standing business newspaper. Instead, business news is carried as a section in a general newspaper or as a supplement or pull out
The prominence of business reporting in Malawi emerged following the adoption of liberal politics in 1994. Since the end of one-party rule, issues of the economy and people's welfare have dominated political and civic debate. People have become more conscious of the performance of the economy and how it affects their livelihood and survival. In national elections, for example, sound economic management and improvement in living standards have become dominant campaign themes of various political parties and candidates. Manda and Chirwa (2007:2) argue that business reporting creates space for public debate on the national economy through the involvement of citizens in matters of formulating, implementing and monitoring of the national budget. Besides focusing on the national budget, business reporting in Malawi has been equally concerned with public accounting, corporate governance and economic performance of the private sector among other issues.

Nevertheless, Malawi, like many other African countries, lacks a well developed business journalism practice. This could be attributed to two major factors. Firstly, the one-party rule which prevailed for 30 years after independence did not allow any journalism schools to operate (Chimombo and Chimombo, 1996:6). Formal journalism education and training was only introduced after the adoption of multi-party politics in 1994. Secondly, the existing journalism education models emphasise training for general reporting (Jamieson, 2005: 29). Since there had been no formal training and education for business reporting, general reporters routinely transform into business journalists. This situation called for an investigation into the socialisation and training of business reporters considering that business journalism poses its own unique and complex challenges.

Business reporting at The Daily Times and the Nation newspapers

The Daily Times and *The Nation* are the only two daily newspapers in Malawi. *The Daily Times* is the oldest newspaper in Malawi. It was established in the early 1960's by the family of the country's first post-independence president, the late Dr. Hastings Kamuzu Banda. *The Nation*, owned by late veteran politician, Aleke Banda, was established in 1993 during the transition from single party to multi party political dispensation. *The Daily Times* and *The Nation* define and dominate business reporting in Malawi. The two newspapers were appropriate for the study because they covered more business issues and in greater detail than other media organisations in Malawi. Furthermore, they were significant as they had set up business desks alongside other regular news beats such as politics, entertainment and sports.

The papers had deployed full time staff for the business desks both at their main offices in the commercial city of Blantyre and at regional bureaus in Lilongwe and Mzuzu. They also enjoyed the highest circulation and readership in Malawi. At the time of the study, *The Daily Times* and *The Nation* had a circulation of 12,000 and 15,000 respectively (MISA 2012:47). The business desk at *The Nation* was set up in 1995 and in 1996 for *The Daily Times*. *The Daily Times* has a four page section of business news daily with a sixteen page *The business Times* pull out on Wednesday. *The Nation* on its part carries four pages of business news daily except on Sunday and publishes its eight-page supplement on Thursday.

Research Design and Methodology

To answer the stated research questions, this study adopted a case study approach. As Stake (1995: 112) notes, cases are chosen and studied because they are considered "instrumentally useful in furthering understanding of a particular problem, issue, or concept." The study targeted business journalists of two leading daily newspapers in Malawi namely *The Daily Times* and *The Nation*. Data was mainly collected through face-to-face, semi-structured in-depth interviews with selected business reporters. The in-depth interviews were used to obtain detailed information about specific aspects of the respondents 'work as business journalists. Where appropriate, follow-up questions were asked to gain more depth to answers provided to the study question. This allowed a substantial room for respondents to express themselves more openly and for the researcher to probe explanations (Wimmer and Dominic 2004). Additional information was gathered through in-depth interviews with editors of the two newspapers. This was used not only to complement data from business reporters, but also to get an alternative perspective. At the time of the research, the business desk at *The Daily Times* and *The Nation* had 4 and 5 reporters respectively. In total 11 people participated in the study (nine reporters and two editors).
All interviews conducted with reporters and editors were recorded and later transcribed. Given that the interviews produced data in form of verbatim transcripts, the researcher interpreted the meaning of the data and presented it in a critical and coherent manner. The researcher reported those sections of the interviews that shed most light on the research question in narrative form with pertinent quotations used to illustrate major findings of the study.

Study Findings

Motivation for becoming a business journalist

Analysis of the interview transcripts indicated that the majority of the interviewees came upon business reporting as a career serendipitously. Their transition from general assignment to business reporting did not have a single catalyst. They gave various motivations for choosing business journalism as a career path. Nevertheless, three basic patterns emerged from the interviews; those who became business journalists out of passion for the beat, those who joined the business desk just for the sake of reporting something different, and those who were forced by circumstances.

A reporter of *The Daily Times* belonged to the few that had the initial passion to report business. As he put it:

"The field was uncharted and so [I] wanted to do something unique in Malawi journalism, to take up the challenge to help bring awareness among people on various business policies being introduced and implemented and how they affected the country's development agenda. Also it was the idea to associate with the cream of the world. Economists, business and financial experts are regarded as the top ranks of decision making on issues of the economy. Issues of the economy are regarded as tough and difficult. For belonging to the business desk, one is seen as belonging to unique and special class of journalist. Many reporters would refuse to be on the business desk because they think it is difficult. To be a business reporter is special, one interacts and associates with top notch intelligentsia, people with knowledge about business and the economy." (Interview, September, 2012)
For three reporters at *The Nation* and one at *The Daily Times* , the motivation to enter business journalism was the desire to report on something different (to break away) from the usual routine, mainly the emphasis on political reporting. And for two reporters at *The Daily Times*, circumstances forced their entry into business journalism; they were ordered to move to the beat due to shortage of staff on the business desk.

Based on these findings, it can be said that many of the reporters had no initial motivation to venture into business reporting. Only a few had considered it in the first place. The rest were, to say the least, dragged into the field for various reasons cited above. These findings support Marchette (2005) assertion that journalistic specialisation was not compatible to academic disciplines, because there were no formal entry requirements. For the journalists at the two newspapers under study there was no specific academic qualification or any other conditions attached for them to become business reporters.

Recruitment for business reporting

The newspaper editors were asked, "What was the pre-requisite education and training for business reporting? In other words, what criterion was used by the editors for recruiting and re-deploying staff on the business desk?" Their responses revealed that experience in journalism rather than background knowledge in business or economics was the most important factor considered when media institutions hire business reporters. Editor of *The Daily Times* explained that:

"Recruiting staff for the business desk is a challenge because most of the media training institutions do not offer specialised training for business reporting. So usually most of the people that we have hired are those that got basic training in journalism then probably had chances later on for further studies specifically in business and economics news coverage. Most of the time we target those who have had training outside their normal or basic journalism training, and also had opportunities to do short courses in business and economics reporting. In addition we usually also look for some work experience, those who have been on the business desk before." (Interview, October, 2012)

On the other hand, editor of *The Nation* said for business reporting the paper usually targeted people with a relevant first degree and at least with some knowledge of economics or business. The editor observed that it was ideal to target those with an economics degree in economics because this knowledge was vital, citing an example of one of the paper's business reporters who was an economics graduate from Chancellor College, a constituent college of the University of Malawi. Editor of *The Daily Times* said his organisation had tried the approach of recruiting economics or business studies graduates since it would have been the best option. But he pointed out that such graduates were usually not settled because they could get more competitive salaries elsewhere. He said economics and business studies graduates found lucrative jobs elsewhere rather than in the media. He said, when they came to the media, it was because they had nowhere to go at that particular time. This editor observed that unless remuneration and work conditions in the media improved to become competitive as those offered by the corporate and financial sector, the chances of maintaining economics and business studies graduates were minimal. Editor of *The Nation* agreed with his *Daily Times* counterpart that it was not achievable to get economics and business graduates as they were mostly unwilling to work in the newsroom but instead preferred the corporate world where salaries and conditions were attractive. He added that it had to be understood that these economics and business graduates were not in principal professional journalists by training but just happened to be suited to journalism, hence their primary target was the financial, business and corporate sectors.The editor's advocating for economics or business graduates as the most ideal for business reporting was contradicted by a very experienced business reporter at *The Daily Times* who argued that he would give priority to an experienced reporter to learn on the job over an economics graduate turned business reporter. To him, the economics or business graduate would fail to communicate information to the masses. He added that the experienced journalist would look at issues with the eye of an ordinary person. Another reporter at *The Nation* supported this position that economists or business studies graduates were not best suited for business reporting noting:

"It is true that some people who are economists have ended up being good business journalists. But you also have got cases around where you find people who have never been trained as economists ending up being good business journalists. I think we should first understand who a journalist is; a journalist is a communicator whether it be in science or politics. So in the case of business reporting, it is anybody else who is interested in reporting business news, what is important is to equip them to understand the issues. To me, it is better to have an experienced journalist rather than a graduate economist to report on business. Even if one does not have a background in economics or business studies but if you have an interest in that particular sector then you can turn into a good communicator of those issues. What is important is to be good communicators and interpreters of the issues."(Interview, October, 2012)

From the sentiments of the two reporters, it can be argued that the position of editors on recruiting business and economics graduates for business reporting seems idealistic. What was more practical and manifested on the ground was that journalism experience surpassed all other considerations. Of the nine business reporters interviewed during the study only one had a degree in economics. This indicated that while economics or business qualification was preferred, it was not attainable and that journalism experience was the most used criterion for recruiting staff for business reporting. The situation at the two Malawian newspapers seemed to agree with Reed and Lewin (2005: 14), who noted that it helped if the reporters had experience covering other types of stories before moving over to business, as experienced reporters needed less direction while greener reporters required more mentoring. Nearly four decades ago, Turnstall (1971:24) also made similar observation that in specialist reporting preference had always been on general experience and competence rather than specialised knowledge.

Induction and mentoring newly recruited business reporters

Editors of the two newspapers under study agreed that mentoring for newly deployed reporters on the business desk was an important requirement to have the people orientated to the expectations and mode of operations on that particular desk.

Editor of *The Daily Times* however observed that sometimes formal mentoring was not always possible, especially if the new person came to the desk when more experienced reporters were busy. In that situation, he confessed, de-briefing and mentoring was sometimes overlooked and the new person was left to swim on their own. He said what would be done instead was to constantly give feedback to the concerned person. He noted for example that if there was something which could be improved on, they would be advised accordingly. The editor said the responsibility of mentoring would be left to the business editor because he possessed specialised knowledge in that field. Editor of *The Nation* said the process of mentoring on the business beat was the same for reporters on other desks The only difference was that as part of the mentoring process they were encouraged to read widely literature on business and economics to keep themselves abreast with latest developments. The two editors admitted that induction and mentoring of new recruits was compromised because they were not governed by any written rules but carried out as routine practices when necessary.

However, most reporters expressed concern over lack of mentoring and socialisation at the time they joined the business desk. One reporter of *The Nation* explained that he was not mentored or inducted in any way on business reporting as the experienced reporters were then not available to do so. A reporter of *The Daily Times* said in the absence of formal mentoring in the early days, he familiarised himself through reading articles in international business newspapers and magazines. Two reporters of *The Daily Times* who had the privilege of being inducted and mentored admitted it was a useful process that nurtured and sharpened their skills.

These findings revealed that while mentoring was an essential process in the professional socialisation of business reporters, it had not been carried out to the expected levels or in some cases not at all. Most reporters interviewed lamented how they had struggled to cope with demands of the business desk and ended up making mistakes in their writing which could have been avoided if they were formally and properly inducted and mentored. Most newly recruited reporters on the business desk said they had been left to find ways of doing things on their own.

Education and training of business reporters

In this study, education was used to refer to academic qualification that emphasise theoretical aspects while training denoted qualification that focussed on practical elements of a profession. Within training, a distinction was also made between short term courses pursued at workshops and seminars, and long-term courses leading to award of a certificate, diploma or degree. In terms of their formal education, findings revealed that the highest academic qualification for two reporters of *The Nation* and three of *The Daily Times* was The Malawi School Certificate of Education (an equivalent of British GSCE O-level certificate). One reporter of *The Daily Times* had a diploma in journalism, one reporter of *The Nation* possessed a bachelors degree in economics while two reporters (one for each paper) possessed bachelors degree in journalism.(Refer to Table 1)

Table 1: Academic Qualifications

Qualification	Number of people
(a)M.S.C.E. (British GSCE O- level equivalent)	5
(b) Diploma	1
(c) Bachelors degree in journalism	2
(d) Bachelors degree in economics	1

The academic qualifications as shown by table above indicate that most business editors ventured into business reporting unprepared without any pre-requisite knowledge and expertise.

Professional Qualifications

All the journalists interviewed indicated having no initial exposure or background knowledge in business or economics except one who had a bachelors degree in economics. The rest only possessed qualifications in general journalism ranging from certificate to a bachelors degree (Refer to Table 2).

Table 2: Professional qualifications in business/economics

Qualification	Number of people
(a) Certificate in business /economics	0
(b) Diploma in business /economics	0
(c) Bachelors degree in business /economics	1
(d) Masters degree in business/economics	0

It was because of knowledge gap in business and economics as depicted by the table above that most reporters indicated that short term business reporting courses were critical for them to meet the demands of the beat.

Professional short courses

All reporters interviewed indicated that they had attended short-term professional training at either a workshop or seminar. Topics covered during such training included the following: reporting corruption, corporate governance, budget reporting and analysis, reporting business news, globalisation, understanding the global financial crisis, and reporting the national economy. Most of the workshops and seminars, it was observed took place locally and organised by institutions such as the University of Malawi, the Reserve Bank of Malawi, National Bank of Malawi, Standard Bank, Malawi Revenue Authority, Office of the Director of Public Procurement, Economics Association of Malawi, Malawi Confederation of Chambers of Commerce and Industry, Malawi Stock Exchange, Malawi Economic Justice Network and Institute of Internal Auditors, and the local offices of international institutions such as the World Bank, Canadian International Development Agency and the United States Agency for International Development (USAID). Some reporters indicated to have attended such short term courses outside the country organised by international institutions such as the Reuters Foundation, European Union, African Development Bank, Reserve Bank of South Africa, and Johannesburg Stock Exchange among others.
The two editors admitted that due to cash flow problems it became difficult for the media institutions to sponsor reporters for professional training in Malawi or outside the country. They instead encouraged reporters to seize opportunities of fully-funded training. They said in some cases their organisations would meet part of the costs such as transportation expenses when the tuition and other costs were paid for. But they emphasised that the initiative had to be with the reporter to identify and apply for a course and only inform management should they needed support.

In-house training

Editor of *The Daily Times* added that apart from training offered by other institutions within and outside the country, in-house training is sometimes organised. This usually involved inviting officials of business and economics institutions who would make presentations to the business reporters. He said such presentations supplemented the mentoring and socialisation that took place on the desk and had proved very useful. He explained how it was done:

“We have in the past tried to call people and organisations to come and make presentations on particular areas of business and economics as one way of improving the performance of our business reporters. For example the Economics Association of Malawi would do some training for journalists on specifically how they want people to cover economics issues, the Bankers Association of Malawi would give a briefing on how to handle issues concerning banks, the Malawi Stock Exchange would also hold a training session specifically on how best they could be covered. So business reporters benefit from such presentations” (Interview, October 2012)

The above explanation showed that the media organisations complemented efforts of external organisations in providing training to business reporters. All reporters were unanimous in acknowledging the significance of long and short term professional courses to their business reporting careers. One reporter of *The Nation* put it that:

“When I was going into business reporting I did not have the much needed knowledge and experience, therefore such training have been like eye openers because they helped me understand issues in business and I think they have helped to shape me to where I am now” (Interview, October 2012)

Most reporters said the courses exposed them to new business knowledge, and provided new insight and helped them gain confidence. In one unique case, as part of professional training, one reporter of *The Daily Times* said he had benefited from a six month internship at the business desk of *The Chicago Tribune* in the United States of America

Membership to professional organisations

Socialisation and training through membership to professional association was also mentioned by the business reporters as another useful intervention. One such body was the Association of Business Journalists (ABJ). In the words of a reporter of *The Nation* who claimed was a founding member of ABJ had contributed tremendously to the quality of business reporting:

"The association has done an incredible job to enhance the professionalisation of business journalists through exchange of ideas and public talks where professionals in economics, business and financial sectors present working papers and discuss issues. In addition members have benefited from the association as a forum for networking, interaction, knowledge sharing and discussion of issues to develop business journalism profession, lobbying and negotiating with organisations for training." (Interview, October, 2012)

In addition to the local organisation, other reporters said they were members of international professional bodies such as the African Economics Editors Network through which they had benefited in form of training, networking and sharing of knowledge and skills with other reporters across the African continent.

Education and training the reporters needed

Despite benefiting from short and long term professional training, the reporters explained that they wished they could undergo more training to enhance their skills especially in aspects they faced challenges. The areas identified included: monetary policy, international financial market systems, globalisation, interpreting national budget, bond and commodity markets, interpreting statistics, and analysing company financial statements. This showed that while the business reporters had undergone some professional training, there existed knowledge gap that required more exposure and training. In a study of 18 west coast newspaper editors and reporters in the United States of America carried out over a decade ago, nearly all agreed that business journalists needed classes or training in business and economics to do their jobs well (Ludwig 2002:129). Going by the study findings, the scenario in the United States appear to hold true to the Malawi situation. As articulated by reporters of the two newspapers under study, their exposure to different forms of professional training had significantly improved their capacity to cover business. They indicated that they needed to take classes in business and economics to provide them with tools necessary to do their work properly, although they were mixed responses on what form the courses should take and the specific areas or topics.

Discussion of Findings

Findings of the study established that for most business journalists at the two daily newspapers, there was no initial motivation to venture into business reporting. Most of them began their careers as general reporters and few had considered the choice of business journalism as a career option as there was no initial passion and inspiration. For some it was a matter of moving away from their usual routines especially political reporting while others were forced by circumstances, for example shortage of personnel on the desk. This showed that most of them were to say the least dragged into it for various reasons. The study also revealed that the business reporters had different educational and professional backgrounds and experiences. Although the editors of the two daily newspapers under study said they preferred business or economics graduates, most of their business journalists at that time did not possess those qualifications. The majority of them had no formal training in business or economics and had to be exposed to the field through short and long term on the job training.

An essential outcome of the study was the recognition that training was one of the central pillars of the professional socialisation of business reporters. Kariithi (1995:376) puts it that studies of how African journalists cope with demands of business journalism have found that even without considering the impact of other factors, the writers lacked technical skills for comprehensive reporting and analysis of business issues. The way the business reporters were socialised was reflected on the kind of content they produced. Since an understanding of business and economics issues is a pre-requisite for effective dissemination and interpretation of information to the public, business journalists required to be trained. The study revealed that there were a handful of trained business reporters, hence the added need for more training. However, specialisation in business reporting had not fully taken root among Malawian journalists. It was noted that lack of adequate specialised training was particularly cardinal. Local institutions that offer journalism education and training did not have specialised programmes targeting business reporting and therefore most of them became business reporters by need other than ability.

To this effect, the Department of Journalism and Media Studies at the Polytechnic, a constituent college of the University of Malawi, as a key journalism education and training institution, needed to strengthen its curriculum to accommodate the training of business reporters. The department's revised curriculum of 2010 which incorporated some business journalism modules was a move in the right direction. As Pardue (2004) observed, until specialised training in business reporting was integrated into journalism programs, a gap would remain between what editors needed and what poorly prepared graduates would deliver.

But more could be done by the University of Malawi and other private journalism and media training institutions by either introducing a speciality programme in business reporting or by allowing specialising from third year of the current general degree programme. Meanwhile, the two daily newspapers in Malawi should continue to provide professional training opportunities through which their business reporters could hone their skills. Also not to be underestimated would be the value of what journalists could learn on the job. As the study showed, most of the business journalists joined the beat without any previous knowledge. Therefore induction and mentoring needed to be given special priority. Interviews with reporters and editors attested that on the job training remained a neglected aspect. Therefore induction and mentoring needed to be strengthened and encouraged. Further, the media organisations should hire economists or business studies graduates and train them as business journalists. In the process, their in-depth knowledge of economics and business coupled with an understanding of news reporting would combine to making business news more interesting to the public.

Areas for Further Research

This study was an exploratory enquiry into the socialisation and training of business reporters in Malawi. The findings and interpretations presented in this paper are only the beginning of an important area of study worth pursuing. A lot of questions still exist about business journalism in Malawi and these could be answered by embarking on further studies within the sub-field. While this study provided a good snapshot to understanding socialisation and training of a group of specialist reporters at the two daily newspapers, it was narrow in scope. A broader enquiry could be undertaken nationwide targeting business journalists in other newspapers, radio and television stations, as well as magazines. Also an audience reception study could be conducted to investigate public engagement with business news. Such an enquiry would seek answers to the following questions: how does the Malawi public understand and use business news? How is business news evaluated by the audience? How much does it contribute to the formation and development of public opinion on the economy? How does it influence civic discussion on other issues affecting society?

Conclusion

A lot of studies have been conducted on business journalism but mainly analysing the content of business reporting. There is however dearth of research targeting people responsible for writing and producing business news. This study is but a small contribution in that regard as it examined the professional socialisation and training of business reporters at two leading newspapers in Malawi. It has provided a rich picture of how such reporters became what they are. Findings of this study would be useful to editors in needs assessment process for hiring and training business reporters, and for journalism schools in the training of such reporters. It is also hoped that this study would contribute to a knowledge base journalism scholars can draw from when understanding and interrogating the socialisation and training of business journalists in an African context in general and Malawi in particular.

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Are watchdogs doing their business? Media coverage of economic news

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Abstract
In the wake of the financial crisis, journalists were criticized for failing in their coverage of the economy: The claim was that they had failed in their duty as watchdogs. The aim of this article is to examine to what extent journalists fulfill their role as watchdogs when covering business news, in light of this criticism. Given the prevalence of the watchdog ideal in journalism and the lessons learned during the financial crisis, we expect journalists to act equally critically toward business and political news. Based on a systematic content analysis of business and political news in the five largest Danish newspapers, we find that politicians and business actors are covered with a similar tone. We conclude that journalists do fulfill their watchdog role when it comes to both business and politics. The differences in coverage and the implications of this adherence to the watchdog ideal are also discussed.

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Keywords
Business coverage, business news, content analysis, economic news, financial crisis, watchdog journalism

Introduction

Ever since the dawn of the international crisis in 2008,[1] the media worldwide have been criticized for failing to exercise skepticism about what was done by those in political and financial power and therefore failing, as the fourth estate, in their duty to the public (Marron et al., 2010). For example, Manning (2013) claims that financial journalism failed to alert for the sings of the crisis by practicing a simplistic model of monitoring. He also argues that public relations (PR) consultants made financial institutions more competitive in exercising control in information flows. Empirical studies that analyzed media content before the 2008 crisis have shown that the media were paying attention only to some sectors of the economy (which did not include debt and derivative markets) and that their evaluation was not very critical (Starkman, 2009; Tett, 2009). Other scholars have criticized financial journalists for being unaware of the institutional framework in which they operate (Tambini, 2010b) for not being trained and knowledgeable enough (Davis, 2007; Doyle, 2006) or paying too little attention to economic details (Schiffrin and Fagan, 2013). Starkman (2009), in his study on American newspapers, found that although financial journalists did give some warnings about investment and banking issues between 2000 and 2003, after 2004 such warnings and investigative stories were missing. In Denmark, it was argued that the media did not function as watchdogs during the financial crisis because there was no political conflict between the government and the opposition (Andersen, 2011).

The aim of this article is to determine to what extent journalists lived up to their role as watchdogs when they covered economic news in 2012. In this way, we will be able to assess if this 'failure of the watchdog-critique' that was expressed toward journalists at the onset of the crisis is legitimate in times of a full blown crisis. We do not expect this to be the case – in fact, we expect journalists to act as watchdogs within the field of business news to the same extent they do when they cover political news. Lessons taught by the financial crisis clearly amplified the need for journalists to be alert and cautious of the acts of not only politicians but also business actors – the major Icelandic banking collapse and the Lehman Brothers bankruptcy are only two examples where journalists could have exerted more critique vis-à-vis power holders. These lessons, combined with all the criticism journalists have been exposed to and the importance that they attach to the watchdog ideal, make us believe that journalists of today operate as watchdogs when they cover both economic news and political news.

What is a watchdog?

The watchdog metaphor implies that the journalists act as guards toward those groups in society who have power. At all times, watchdogs should represent the citizens, be suspicious of potential threats and hold the powerful elites such as government and public officials accountable (Berry, 2009; Donohue et al., 1995; Franklin et al., 2005; Wahl-Jorgensen,

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2007). Franklin et al. (2005) specifies the watchdog role more clearly by referring to three assumptions:

> First, the media are essentially autonomous; second journalism acts in the public interest looking after the welfare of the general public rather than that of society's dominant groups; and third, that the power of the news media is such that they are able to influence dominant social groups to the benefit of the public. (p. 274)

According to these assumptions, the watchdog is autonomous, represents the public and has the power to challenge those in power (Patterson, 1998). Watchdogs are also critical and adversarial in their coverage, critical in a context of political competitiveness where actors are open to evaluation (Norris, 2000: 29). Additionally, watchdogs are per definition objective; they do not represent any specific interests, but instead, they present different interests and opposing views in a news story in order to be as unbiased as possible (Skovsgaard et al., 2012). The importance of fulfilling the objective watchdog role is underlined by the dedication journalists express toward it. In a research conducted by Skovsgaard et al. (2012), 45 percent of Danish journalists agree that it is 'very important' for journalists to be as objective as possible and not to take a stand on who is right in a conflict. They also believe that they should be equally critical toward both sides in a dispute (Skovsgaard et al., 2012).

But how does the watchdog operate in economic news – are watchdogs as fierce when it comes to chasing business actors as they are when chasing politicians? We believe it is crucial that journalists sound the alarm when some potential dangers toward society are rising in the world of business – in exactly the same way they do when politicians jeopardize the well-being of society. That is also why we adhere to the watchdog ideal as a standard that should belong in business too. It has been argued that political journalists face less pressure for PR, thus are more critical toward their actors (Reich, 2011). That is why the coverage of politicians can serve as a standard to which the coverage of business actors can be compared. This question seems more important than ever, since the power of business actors has become very clear in the wake of the financial crisis. For such a comparison to be made, it is desirable to distinguish between economic news focusing on either 'political news' or 'business news',[2] in order to see how the journalists fulfill their role as watchdogs when it comes to, for instance, actors and issues covered.

Prior research on how business news is covered is ambiguous. It has been claimed that the American news media have a pro-market bias (Herman, 2002). Likewise, in a case study of how business crime is framed in the British media, Allen and Savigny (2012) demonstrate that the media favor business interests over the public interest – business actors had the voice in 45 percent of the articles analyzed, whereas government politicians only had the voice in 7 percent of the cases. Furthermore, they argue that the media environment is generally supportive of business interests and that those responsible for financial wrongdoings are able to get away with it (Allen and Savigny, 2012). Miller (2006) also found that the American press preceded a public admission or an investigation in exposing 'accounting irregularities' of companies in only less than a third of the cases.

Contradictorily, and based on observation and in-depth interviews, Doyle (2006) claims that financial journalism is sometimes falsely stereotyped into using a pro-corporate bias with the aim of portraying corporations and their activities positively. He also found that

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the journalists perceive themselves to be watchdogs as far as corporation performance and conduct are concerned. These journalists claim to be ready to cover any malfunctions or consequences within corporations' performance and conduct. Journalists in the same study also acknowledge that PR and corporate spin is 'endemic' to their field, and they are trying to find ways and techniques to keep their reports independent from the releases (Doyle, 2006: 14). As it was found in other empirical studies (Tumber, 1993), some, mostly tabloid, financial journalists put emphasis on negativity since it is more newsworthy.

The empirical findings of Reich (2011) suggest that, in comparison to their political counterparts, financial journalists use fewer sources per item, are more reliant on PR and they take less initiatives in contacts with sources. On the other hand though, not many differences were found as far as diversity of sources and cross-checking are concerned.

The impact of the financial crisis on watchdog journalism

We further believe that the financial crisis, combined with all the criticisms that financial journalists have been exposed to, has potentially made journalists even more alert to their role as watchdogs of not only politicians but also business actors. Scholars have indeed argued that critical incidents and events like the Vietnam War, the Watergate scandal, the Gulf War or the assassination of JFK have reshaped the rules and conventions of journalistic practice which are relatively stable (Arlen, 1969; Schudson, 1993; Zelizer, 1990, 1992). In this light, the current financial crisis can theoretically be seen as a *critical juncture* influencing the pattern of financial journalism (Kier, 2012). A critical juncture is a specific event that opens up the opportunity for change in the path followed (Thelen, 1999), and in this case, it could be the opportunity for financial journalism to become more alert and critical toward business. Especially since financial journalists might have incentives for rebuilding their trustworthiness due to their failure in predicting the crisis and in a reply to all the criticism they have been exposed to in the wake of the crisis (Kier, 2012). A way of rebuilding this trustworthiness could be through a more aggressive coverage (Roush, 2006). Extrapolating from this, we believe that journalists would adhere to a cautious and equally critical stance toward business news as is the case for political news.

Hypotheses

Our first set of hypotheses is based on the expectation that journalists learned the lessons from the early phases of the financial crisis, which demonstrated that both political decisions on the economy and the behavior of business actors can have a great impact on citizens' lives. In addition, since journalists consider their watchdog function as very important and are aware of their responsibility to keep a close eye on the power holders in society, we find no reason why journalists should differentiate in their watchdog duty when covering business actors or politicians. We believe that the basis of watchdog journalism is the similarity and balance in the coverage of different power holders in news articles. A very positive and optimistic coverage of important business actors before and during the first signs of the ongoing financial crisis has been claimed to be one of the reasons behind it (Dickinson, 2010; Tambini, 2010b). The role of financial journalists

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should contain not only 'unearthing cases of fraud, but providing the balanced and skeptical news and comment that deflates bubbles and helps avoid market irrationality' (Tambini, 2010b: 28). This would influence the way the economic climate is evaluated in economic news, both political and business.

Thus, following our expectations and past research suggesting that the visibility of an issue, the visibility of actors and its tone influence perceptions (De Vreese et al., 2006), we focus on these aspects of the coverage and we build the following hypotheses:

H1a. The economic climate is evaluated similarly in economic news articles where the main issue is a political issue as in articles where the main issue is a business issue.
H1b. The economic climate is evaluated similarly in economic news articles where the main actor is a politician as in articles where the main actor is a business actor.
H2. Politicians and business actors are evaluated in a similar manner in economic news articles.

Our second set of hypotheses concerns the frames of the news stories in political and business news. We base these two hypotheses on the assumption that a focus on consequences implies a more interpretative and proactive view on news (De Vreese et al., 2001; De Vreese, 2005). This is in accordance with the theory on the watchdog function of journalism, since the whole point of alerting the public is to make the public aware of the possible consequences of the actions of the political or financial power holders. Moreover, we believe that the importance of the news criteria conflict (Galtung and Ruge, 1965) is tied closely to watchdog journalism because the objectivity norm enhances a focus on all sides in disputes. Again, since both political and business actors are powerful groups that work in very competitive environments, we expect similarity in the presence of both consequence frame and conflict frame:

H3. The presence and the evaluation of economic consequence frame is similar in economic news articles where politicians and business actors are the main actors.
H4. The presence of conflict frame is similar in economic news articles where politicians and business actors are the main actors.

The Danish case

We test our four hypotheses in the Danish context. In Denmark, the journalistic ideal of watchdog journalism is very strong; in fact, the notion that journalists cannot fulfill their duties as responsible servants due to political pressure has very minimal support (Van Dalen et al., 2012). The objectivity norm and the public service norm are also highly emphasized by Danish journalists, something that started with the decline of party press in the late 19th century or early 20th century (Skovsgaard et al., 2012). A case like the Danish where there is a strong ideal of watchdog journalism is interesting to investigate so as to draw conclusions on the possible developments of this ideal due to recent events. We think that the trends will be the same in most Western countries where journalists share the same professional values and have been hit by the crisis in the same extent as

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Denmark. Thus, we expect this to be the case in the countries belonging to the Democratic Corporatist model and not necessarily in countries which, for example, belong to the polarized pluralist model where the professionalization is weaker between journalists (Hallin and Mancini, 2004).

Methods and data

The analysis is based on a quantitative content analysis of news articles covering the economy. These articles were published by the five Danish newspapers with the largest circulation: Berlingske, Jyllands-Posten, Politiken (broadsheets), B.T. and Ekstrabladet (tabloids) in a three month period from 1 March to 30 May 2012. This time period was chosen because it minimized the risk that one breaking news story on the economy (favorable as well as unfavorable) would make a bias in either way because it could be heavily covered for many days in a row. By keeping the data collection period as long as possible, the risk of such bias is lowered. Acknowledging that the Internet is an increasingly important source of news supply, we decided to include news articles published on both the printed platform and the online platform of each newspaper. The population of articles was obtained by a computer-assisted content analysis using two different electronic databases, Infomedia[3] and BERTA.[4] Infomedia was used for collecting the news articles that were published in the printed newspapers, whereas BERTA was used for collecting the news articles published online on the homepage of the newspapers.

The relevant articles from each newspaper were found using specific search words.[5] The search words used are specifically related to the economy, but words that are often used to describe the economy such as 'upturn' or 'downturn', 'improvements' or 'decline' are left out, since they may also appear in all other contexts. A search including these words would result in a higher number of hit articles that are not related to the economy at all.[6] A search in Infomedia generated a population of 3,006 articles from Politiken, for example, and an equivalent search was done for each media outlet. Likewise, using BERTA the population of online articles was obtained. By using this sampling procedure throughout the research, the entire population of articles consisted of 17,321 articles divided almost equally on the five different media outlets.

In order to draw a representative sample of the news articles, we sampled on two levels. First, we sampled randomly[7] which days to choose for the content analysis and, second, within these specific dates we selected the specific articles by sampling randomly from all the articles published on this specific date. This procedure was carried out until the sample was complete, and we repeated the procedure for each newspaper. We sampled 50 articles from each newspaper from the same 50 days. The final number of articles included in the content analysis was 492.[8]

The articles were analyzed by three trained coders using a codebook with explicit coding rules. The coders are political science students with Danish as their mother tongue. Coders received training in several sessions, and meetings were held in order to resolve conflicts in definitions of variables. An inter-coder reliability test was undertaken in a subsample of 25 articles.[9]

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Measures

First, the main issue of each article was coded. If a story had more than one main issue, then coders were asked to code first the one which was mentioned first. The issue categories were as follows: employment/unemployment, inflation, state debt and deficit, business news and imports/exports, taxation, housing market, investment issues, interest rates, individual economic stories, growth/recession (in a country), and others. These categories were inspired by a similar study by Sanders et al. (1993).

Second, articles were classified as having 'no evaluation', 'positive evaluation', 'negative evaluation', and 'mixed evaluation' toward the economic climate. By mixed evaluation we mean balanced exposure of favorable and unfavorable evaluations of the economy. The coders were asked to measure the tone of the headline and the subheading of the article when in doubt.[10]

Third, for each article, we coded the appearing actor. These could be specific persons, institutions, a government, an organization, or a country. Up to five actors per article were coded. By definition, actors needed to appear twice in the article in order to be coded (verbally mentioned twice, verbally mentioned once and quoted once, verbally mentioned once and depicted once). The actors in each article were coded by order of appearance. Actors with several roles like 'President of the euro group/Prime minister of Luxembourg' were coded according to how the journalists or the sources named them. Broad categories of actors were 'Business actors', which included companies, business people, and CEOs, 'Political Actors', which included Danish and international politicians as well as governments and the European Union (EU) used as actors, ordinary citizens, experts and credit-rating agencies, and interest organizations.

Fourth, coders were asked to code whether the actors were evaluated by anyone in the story, a journalist or a source. Possible responses were 'there is no evaluation of the actor', 'there is a dominantly favourable evaluation of the actor', 'there is a mixed evaluation of the actors', and 'there is a dominantly unfavourable evaluation of the actor'.

Fifth, coders were asked to evaluate whether a news article reports an event, a problem, or an issue in terms of the consequences it will have economically on an individual, group institution, region, or country. Sixth and finally, coders evaluated whether a news article put emphasis on disagreement between arguments, people, or institutions. These framing items stem from De Vreese et al. (2001).

Results

The first part of this section covers the descriptive analysis of this study. During the analyzed period, we coded the issues discussed in economic news. Figure 1 shows that corporate news was the most prevalent issue (21.5%) followed by unemployment and employment (11.2%), and taxation (11.2%).

We merged (un)employment, debt/deficit, taxation, and growth/recession stories into political issues. For business stories, we used housing market, investment issues, interest rates, and corporate news. Others include Energy, Personal Economy, and other items not counted in the first analysis. When combining the issues into two general categories,

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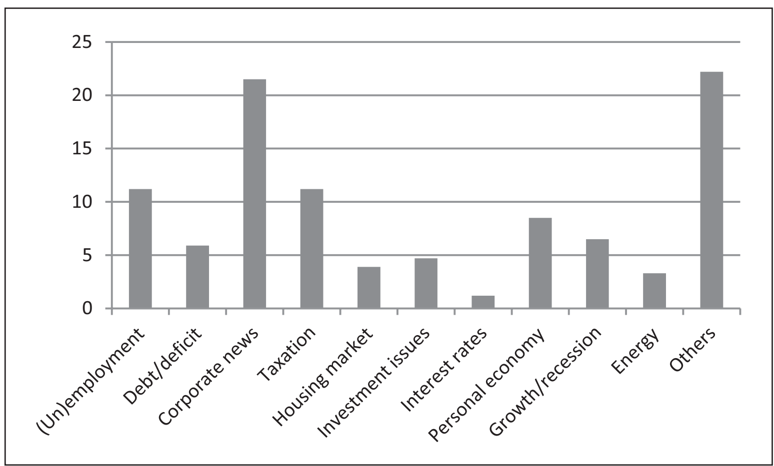

Figure 1. Main issue of the news articles.

political issues and business issues, the presence of political issues and business issues in the articles is similar (31.3%–34.8%), as seen in Figure 2.

Figure 3 shows the actors mentioned in the articles. In sum, business actors and companies are the most present actors (27.2%), followed by international actors such as foreign politicians, EU or leaders of financial institutions like the International Monetary Fund (IMF) and the World Bank (20.3%), and Danish politicians (13.6%).

As far as the evaluation of the economic climate in the articles is concerned (Figure 4), 37.6 percent of the articles covered the economy negatively, as opposed to 20.7 percent who were positive towards it. Of the articles, 29.7 percent did not contain any evaluation of the climate.

In order to compare to what extent journalists act as watchdogs in both politics and business news, we turn to the hypotheses. The first hypothesis (H1a) concerns the evaluation of the economic climate in articles with different issues and expects that the economic climate is evaluated similarly in articles where the main topic is either about political issues or business issues (Table 1). This hypothesis is supported because no significant differences are found in the presence or in the direction of the evaluation of the economic climate across the two issue categories: χ^2 (1, N=325)=1.109, $p > .05$ and χ^2 (2, N=241)=5.443 $p > .05$, respectively. In both political issues and business issues, unfavorable coverage of the general economic climate is most prevalent.

The next hypothesis (H1b) concerns the evaluation of the economic climate when the first actor is either a politician or business actor (Table 2) and expects that the evaluation of the economic climate is evaluated similarly across these actors. This hypothesis is supported because no significant differences are found in the presence or the direction of the evaluation of the economic climate: χ^2 (1, N=301)=0.340, $p > .05$, and χ^2 (1, N=238)=0.399, $p > .05$.

The second hypothesis (H2) predicts similarities in the way politicians and business actors are evaluated by other actors or journalists in the article (Table 3). This hypothesis

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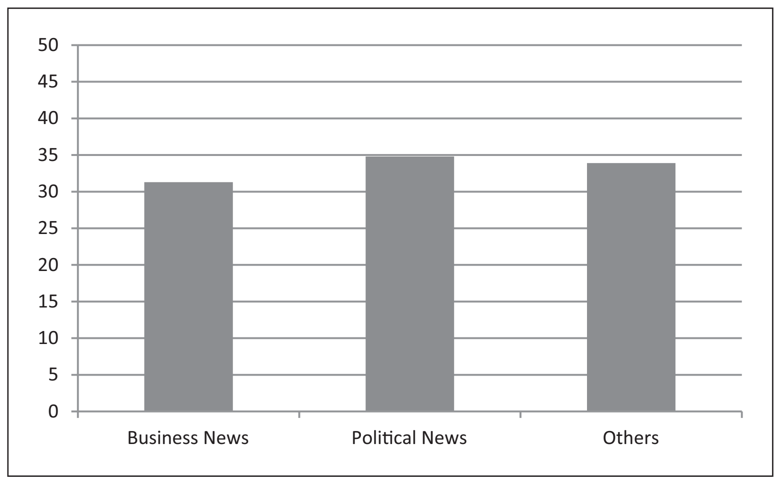

Figure 2. Main issue of the news articles divided into broader categories.

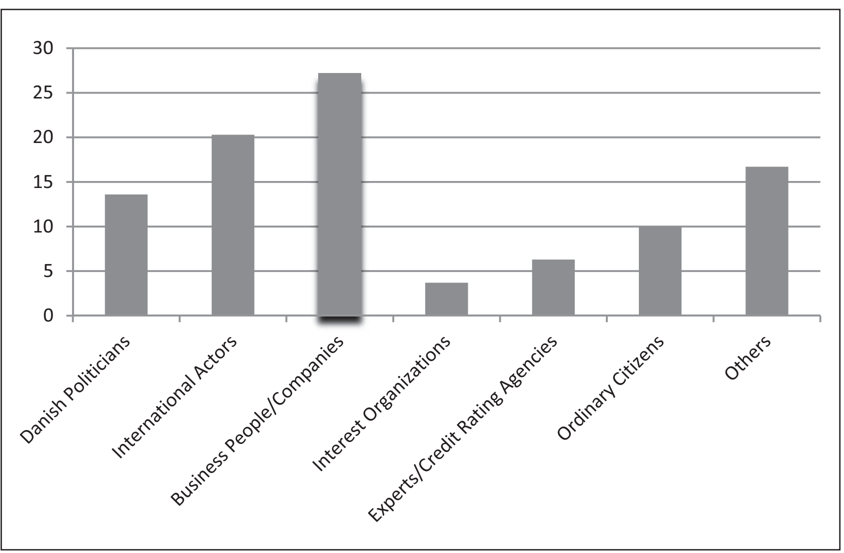

Figure 3. Main actors of the news articles.

is partly supported because significant differences are found in the presence of evaluations of different actors: χ^2 (1, N=301)=3.957, p<.05, and no significant differences appear when measuring the direction of the evaluations of actors: χ^2 (2, N=188)=2.853, p>.05.

The third hypothesis (H3) predicts similarities in the presence and the evaluation of economic consequences frames when different actors appear in the articles. According to

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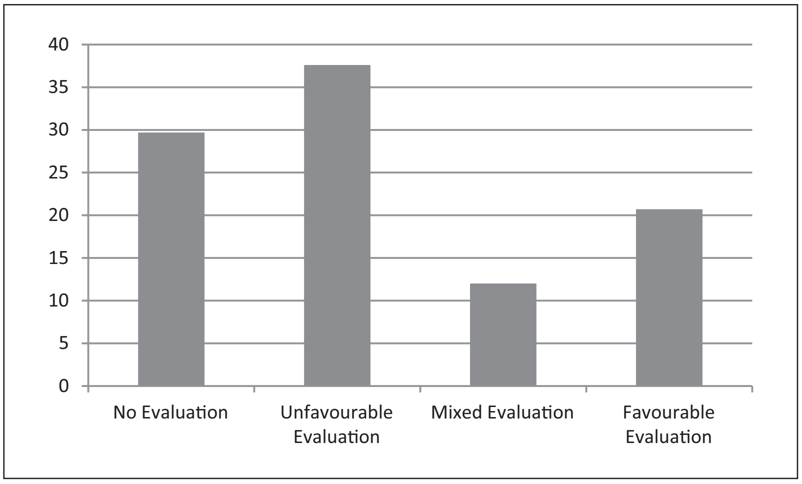

Figure 4. Evaluation of the economic climate.

Table 1. Presence and direction of the evaluation of the economic climate according to different issues.

Issues	Presence of evaluation			Direction of evaluation			
	No (%)	Yes (%)	Total (%)	Unfavorable (%)	Mixed (%)	Favorable (%)	Total (%)
Political	26	74	100 (*n* = 171)	53	24	23	100 (*n* = 127)
Business	21	79	100 (*n* = 154)	50	15	35	100 (*n* =122)
Chi square *N* = 325	*p*-value: .292			*p*-value: .066 *N* = 249			

Articles including issues that did not fit into these categories were excluded from this analysis and this explains the lower number of articles.

Table 2. Presence and direction of the evaluation of the economic climate according to different actors.

Actors	Presence of evaluation			Direction of evaluation			
	No (%)	Yes (%)	Total (%)	Unfavorable (%)	Mixed (%)	Favorable (%)	Total (%)
Political	22	78	100 (*n* = 167)	55	15	30	100 (*n* = 130)
Business	19	81	100 (*n* = 134)	52	17	31	100 (*n* = 108)
Chi square *N* = 301	*p*-value: 0.56			*p*-value: 0.84 *N* = 238			

This analysis is based on 301 articles, because actors not belonging in either of these two categories are left out.

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Table 3. Presence and direction of actors' evaluations in political and business actors.

Actors	Presence of evaluation			Direction of evaluation			
	No (%)	Yes (%)	Total (%)	Unfavorable (%)	Mixed (%)	Favorable (%)	Total (%)
Political	43	57	100 (n = 167)	53	22	25	100 (n = 96)
Business	31	69	100 (n = 134)	48	16	36	100 (n = 92)
Chi square N = 301	p-value: 0.047			p-value: 0.24 N = 188			

This analysis is based on 301 articles, because actors not belonging in either of these two categories are left out.

Table 4. Presence and direction of evaluations in economic consequence frame in articles with different main actors.

Actors	Presence of economic consequences frame			Direction of evaluations in economic consequences frame			
	No (%)	Yes (%)	Total (%)	Unfavorable (%)	Mixed (%)	Favorable (%)	Total (%)
Political	37	63	100 (n = 167)	44	15	41	100 (n = 105)
Business	54	46	100 (n = 134)	38	19	43	100 (n = 62)
Chi square N = 301	p-value: .004			p-value: 0.64 N = 167			

This analysis is based on 301 articles, because actors not belonging in either of these two categories are left out.

Table 4, this hypothesis is partly supported. There were significant differences in the presence of the economic consequences frame when politicians and business actors are compared : χ^2 (1, N = 301) = 8.300, $p < .05$. The economic consequence frame was present in 46 percent of the articles with business actors as actors, while it was significantly more present in articles with politicians as actors (63%). On the other hand, no significant differences appeared in the evaluation of the economic consequences: χ^2 (2, N = 167) = 0.882, $p > .05$.

The last hypothesis examines the presence of conflict frames in articles with different actors. According to Table 5, the hypothesis is not supported because significant differences are found: χ^2 (1, N = 301) = 28.207, $p < .05$. A conflict frame was present in 53 percent of the articles with politicians as main actors, while it was present in 23 percent of the articles with business actors as main actors.

Discussion

What do these results tell us about the watchdogs barking equally loud within the economic and business news coverage? The descriptive analysis showed that corporate

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Table 5. Presence of conflict frame in articles with different main actors.

Actors	Presence of conflict frame		
	No (%)	Yes (%)	Total (%)
Political	47	53	100 (167)
Business	77	23	100 (134)
Chi square p-value: 0.00			
$N = 301$			

This analysis is based on 301 articles, because actors not belonging in either of these two categories are left out.

news was the most covered issue followed by political issues such as (un)employment and taxation. When looking at political news and business news, the difference between the issues was more balanced and showed that journalists cover political and business issues almost equally as far as the amount of the stories is concerned. This is a first indicator that the media portray political and business issues in a similar manner. Likewise, when it comes to actors present in the coverage, business actors are actually more visible than politicians. What happens in the business world is by no means left unnoticed – journalists do in fact pay a lot of attention to and give a lot of space in their columns to what is at stake in the business world. These results are in line with Kjær's et al. (2007: 146) findings which demonstrated that during the past decades, business and industry-themed news and actors are gaining prevalence over economic news on governmental policy in Nordic countries.

In terms of content, we find more similarities than differences in the coverage of political news and business news. The economic climate was evaluated similarly across articles about political and business issues, although the more favorable evaluations of the economic climate were found for business issues (Table 1). This similarity might not be surprising since the poor state of the economy favors a poor coverage of the economy (Tumber, 1993). In terms of actors, we also found that the evaluations of the economy are similar in the articles where business actors and politicians are main actors. In addition, when we tested for potential differences between tabloids and broadsheets, we did not find any significant differences in the direction of the coverage.

Differences were also found in the frames used. The 'economic consequences' and the 'conflict' frame were more present in politicians than in business actors. The differences in the economic consequences frame are surprising, considering that both politicians and business actors are powerful actors whose actions are potential threats to citizens and need to be watched and scrutinized carefully by journalists. On the other hand, the fact that journalists use the conflict frame more when it comes to politicians could be explained with the obviousness of the other side in the dispute – it is easy for the journalists to identify different views because clearly defined oppositions appear within politics in terms of opposition parties, especially in a country with a multiparty coalition government (Semetko and Valkenburg, 2000). This is more blurred within business.

But together, all the results suggest that journalists do keep a watching eye on the business and evaluate them in a critical way which is a first indicator of a change of patterns.

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According to Tambini's (2010a) findings, during the crisis financial journalists were not dedicated to the watchdog role as much as their political counterparts. This was because they were responding to what the audience or investors wanted to hear or because of conflicts of interest (Stein and Baines, 2012). We believe that this change is due to the financial crisis which served as a 'critical juncture' for media coverage. According to historical institutionalists, a critical juncture or a crisis serves as an abrupt institutional change (Hogan and Doyle, 2007). This can be a change in policies or patterns.

Since the financial crisis has led governments and corporations to reform, these changes will be evident in the patterns of the media as an institution which played a major role in the crisis too. The public discussion and demand for reform that followed the financial crisis involved the role of the media in the society as a major player in this crisis (Marron et al., 2010; Starkman, 2009; Tambini, 2010a, 2010b), and this has alerted the field about its own responsibilities. We cannot be certain on whether this is a temporary or a lasting change. On the one hand, other critical events such as the Vietnam War or the Watergate scandal set a journalistic example as mentioned earlier (Zelizer, 1992). On the other hand, the pressure of the companies' public relations will persist to push the journalists. Possible consequences of this change, if it is a lasting one, could include changes in the audience and in the market. A more critical eye toward business and the whole financial system may increase cynicism and distrust (Cappella and Jamieson, 1997), but it would also protect the society from irregularities (Tambini, 2010a). Finally, the Danish journalists did live up to our expectations according to the Democratic corporatist model and showed professional standards of looking at both sides of the story with a similar manner. These results may apply to Denmark and to other countries belonging in the same media system model, but this may not be the case for other countries. In countries of the Liberal model, such as the United Kingdom, where the system is very competitive (Strömbäck and Shehata, 2007), more commercial pressures apply. In countries of the polarized pluralist model, such as Spain, it is common for media owners to use the media for their interests (Hallin and Papathanassopoulos, 2002).

Last but not least, limitations may include the small time period of research or the sole use of press (online and offline) and the large number of unidentified items in the issue and actor identification questions. Future research needs to include a broader time period so that a connection with the real world indicators will provide deeper insights between businesses. In addition, TV and radio economic news should be included as well in order to examine a more comprehensive image of the media coverage of the economy.

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Notes

1. By crisis, we mean the financial crisis 2007–2008 which led to the collapse of financial institutions and of stock markets around the world. We believe that this crisis has consequences until today through the European sovereign debt crisis.
2. For the purpose of this study, we understand political news as economic news which is focusing on politically regulated issues such as taxation and employment, whereas business news is

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news focusing on issues that concern business actors like companies and business representatives such as investment issues.

3. Infomedia is a database that archives all news articles from printed newspapers published by different media outlets. The specific search in Infomedia is conducted by using search criteria such as search words, date, and media outlet.
4. BERTA is a new archive of all news articles published online by different media outlets. When using different search criteria such as search words, date, and media outlet, BERTA will, like Infomedia, show the population of articles fulfilling these criteria.
5. The search words used were as follows: economy, balance of payments, gross domestic product (GDP), inflation, housing market, taxation, debt, investment, interest rate, stock, bank, consumption, savings, salary, loan, export, import, state of the market, employment, unemployment, growth, recession. These words were chosen because an elaborative pretest revealed that these words often appear in financial journalism.
6. This was tested through BERTA: An identical search was made with the following words added: surplus, improvements, balance, upturn, hire, progress, deficit, decline, worsening, imbalance, sack, downturn. This search resulted in 19,807 news articles.
7. We sampled randomly by using the software system http://www.random.org.
8. Eight articles were deleted from the sample because after the coding they appeared not to be about economic news.
9. For the variable issue, percentage agreement is 78.2. For the variable actor, percentage agreement is 61. For the evaluations (actor and climate) percentage agreement is 55.4. For the variable economic consequence frame, percentage agreement is 71. For the variable conflict frame percentage, agreement is 82.6.
10. If the tone of an article was absent or unclear from the heading or subheading or if the article has an opposite tone than the header and subheading, the coders needed to count and compare the number of different evaluations in the article.

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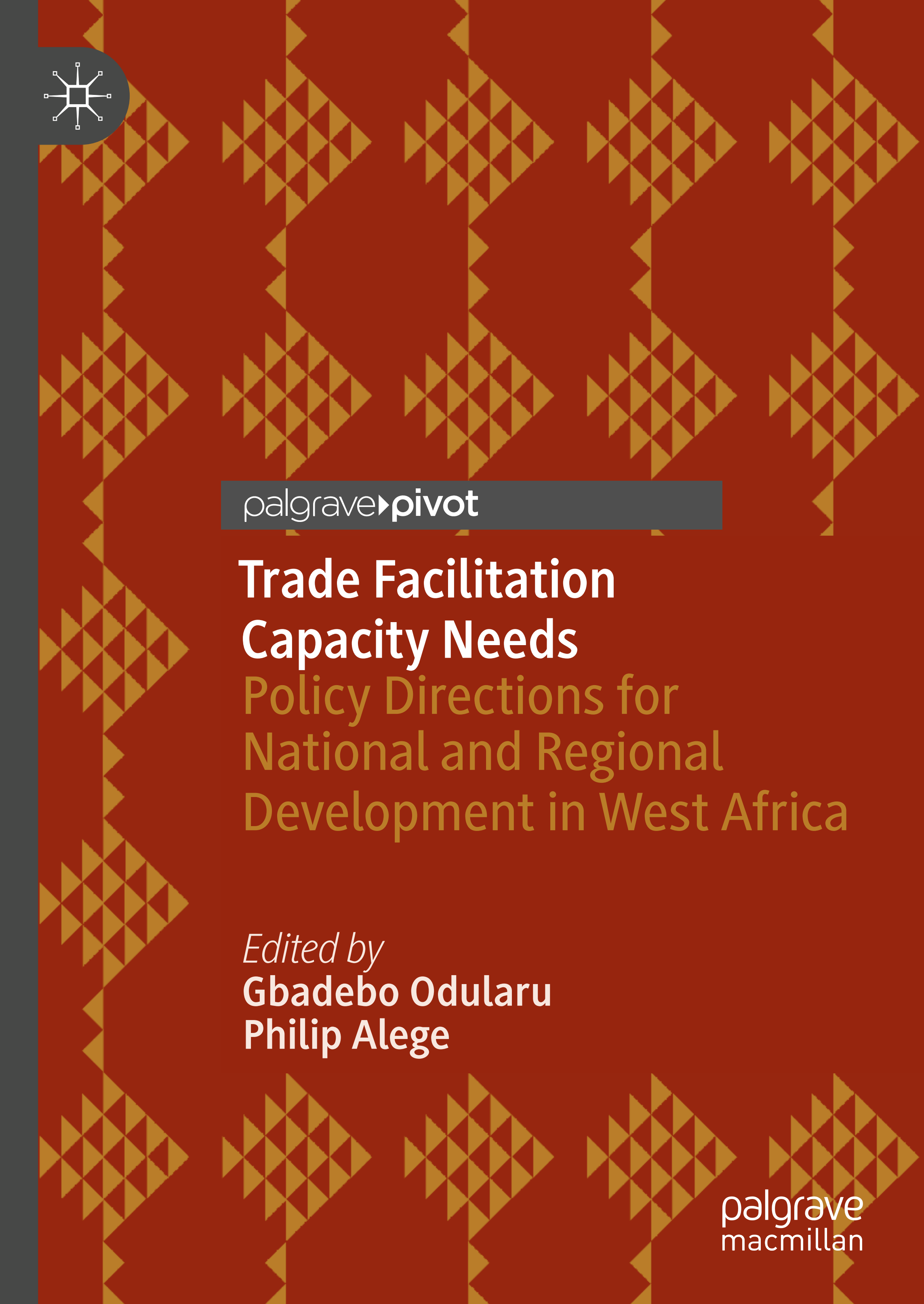
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CHAPTER 1

Introduction: The Changing Landscape of Trade Facilitation and Regional Development Issues in West Africa

Gbadebo Odularu

Abstract The advent of technological advancement, digital commerce, and increased trade integration has continued to strengthen South-South regional trade institutions, partnerships, and capacities. With Brazil, Russia, India, China, and South Africa (BRICS) now accounting for a substantive share of the global gross domestic product (GDP) and the robust economic growth and trade expansion being experienced in Africa, collaboration between governments, regulators, and organized private sectors is crucial for enhancing trade facilitation capacities in Africa. However, the continent and its sub-regions are continually being confronted by increasing trade costs arising from non-tariff sources, such as inefficient transportation, weak

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logistics infrastructure, cumbersome regulatory procedures, lengthy customs processes, and incoherent business documentation, thereby placing Africa at a competitively disadvantaged position. While discussing selected regional integration and development initiatives in West Africa, the article expatiates on the strategic importance of advancing trade facilitation agenda in the face of increasing non-tariff measures (NTMs) and the ongoing African Continental Free Trade Area (AfCFTA) negotiations.

Keywords Trade facilitation • Non-tariff measures • AfCFTA • West Africa • ECOWAS • WTO

> *When goods and services cross borders in international trade, information needs to be passed between relevant parties, whether private companies or public bodies, including suppliers, logistics providers, customs, regulatory agencies, sellers and buyers. Paperless trade refers to the digitization of these information flows, including making available and enabling the exchange of trade-related data and documents electronically. Less formally, one can think of this as cross-border trade transactions using electronic data in lieu of paper-based documents.* (World Economic Forum (WEF) 2017)

1.1 Introduction: Economic Context and Rationale

In this twenty-first century, increasing economic growth, improved governance, and enhanced trade are gradually becoming parts of the 'Africa rising' narrative. Given the nature of these countries, the two inseparable and most important sectors—Agriculture and Trade or Commerce—remain the backbone of the West African economy. However, there is an increasing gap between trade facilitation (TF) commitments and implementation, which has a direct impact on West Africa's capacity to export its commodities—agriculture, manufacturing, and services. For West Africa to achieve its Sustainable Development Goals (SDGs) (specifically on reducing poverty, hunger, decent work, and sustained economic growth, etc.) and meet the expectations of Vision 2020,[1] the Economic

[1] In June 2007, the ECOWAS Authority adopted ECOWAS Vision 2020, which is aimed at setting a clear direction and goal to significantly raise the standard of living of the people through conscious and inclusive programs that will guarantee a bright future for West Africa, and shape the destiny of the region for many years to come – http://www.ecowas.int/about-ecowas/vision-2020/.

Community of West African States (ECOWAS) has been promoting trade facilitation as a tool for the accelerated development of the West African economy. Trade facilitation remains one of the most viable and appropriate tools for achieving and accelerating sustainable development in West Africa. Its trade facilitation tool is designed to increase intra-regional commerce, sustainable boost trade volume, foster integration into the global economy, and contribute towards its realization of the United Nations Sustainable Development Goals (UN SDGs).

The commercially gigantic countries in West Africa are Nigeria, which accounts for approximately 76 per cent of the total regional trade, followed by Ghana with about 9.2 per cent, and lastly by Côte d'Ivoire, which is estimated at about 8.64 per cent. Regional trade in West Africa is dominated by mining commodities (oil resources, iron, bauxite, manganese, gold, etc.) and agriculture (cotton, coffee, cocoa, roots and tubers, cereals, fruits, vegetables, and livestock products). However, the value chain of these commodities is highly inefficient, partly due to deficient access to accurate and timely data for enhanced national and regional trade facilitation and sustainable development (KGH Border Services 2016; Petersen 2017).

The core of the economic relations of the US with West Africa has been the African Growth and Opportunity Act (AGOA) of the year 2000. AGOA offers more than three dozen countries easy access to US markets by eliminating import tariffs. Experts and policymakers believe that, as the main trade policy of the US for Africa, it will bring about the economic and political development of Africa. But the outsized role of oil and apparel in African export growth has raised questions about whether AGOA can diversify the region's economies and increase its competitiveness in global markets. Unfortunately, the US engagement in terms of trade with AGOA's participants has declined since 2008 while Africa has found a new trade partner—China and expanded trade relations with China and other countries. The AGOA is a trade preferential programme for Africa that was established in the year 2000 to strengthen US trade relations with Africa and the Caribbean, enacted during the regime of President Bill Clinton as the US President. Further, it remains a potent and innovative trade strategy which allows AGOA-qualified African countries to overcome selected non-tariff barriers within the US marketplace. The American government saw the policy as an avenue to drive growth and sustain democratic dividends in Africa. It was also expected that AGOA would make the US-Africa relations stronger when the US markets are opened to millions of consumers from Africa.

It is correct to understand that non-tariff measure (NTM) can be linked to sustainable development directly or indirectly. When it is direct, it means there are policies that have an immediate impact on sustainable development, like those directed at protecting health and the environment. If it is indirectly linked, this could be as a result of trade policies that are geared towards fostering economic development with a spill-over effect on sustainability. The indirect linkage to sustainable development makes the cost of trade to slow down the impact of trade as an engine of growth. NTMs may also be seen as trade costs or non-tariff barriers (NTBs). NTMs that are legal but with non-trade motives can greatly restrict and distort international trade flows. Even as NTMs are increasingly becoming popular in most countries, there is still a serious transparency gap. The United Nations Conference on Trade and Development, with support from partners, is at the forefront of an international effort to collect comprehensive data on currently imposed mandatory regulations. It is a fact that each NTM has implementation processes, and it becomes more difficult when the procedures are not very clear. This increases costs and causes delays. However, the World Trade Organization (WTO) Trade Facilitation Agreement has the powers to reduce drastically procedural obstacles and delays at the border.

The benefits of international trade and trade facilitation rely basically on the absence of trade restrictions among trading nations. The global and gradual reduction in tariffs is increasingly being replaced by NTMs. The effect of NTMs is not exactly clear, as it seems to be a bit confusing. NTMs limit import flows to other countries, and measuring the accuracy and effect can be difficult. In addition to the growing institutional weakness and rising compliance cost, overcoming these trade barriers requires an enhanced capacity to efficiently facilitate trade at regional and international levels. As discussed in the fourth chapter of this book, it is important to reduce the number of days for the clearing of goods, reduce the amount of documentation required for trade, and reduce the cost per container both for export and for import. It is believed that overcoming such NTBs will increase the volume of intra-regional trade in the ECOWAS and, consequently, raise the level of trade flows between partners in the region. Based on this background, the purpose of this article is to discuss the strategic importance of advancing West Africa's trade facilitation agenda in the face of increasing NTMs and the ongoing African Continental Free Trade Area (AfCFTA) negotiations.

1.2 Regional Integration and Development Initiatives in West Africa: A Glimpse[2]

Over the past decades, regional development platforms have proliferated in West Africa. However, economic development in the region has not met the required expectations. Though West African countries are making frantic efforts to foster regional development initiatives, the progress indicators are not very impressive, partly because of the slow implementation of regional development programmes designed to eliminate barriers to growth. These hindrances are largely in the form of inadequate national policies and the limited implementation of national and sub-regional agreements; inadequate human and institutional capacities, poorly developed economic growth information systems; porous infrastructure (road, marine port, waterway, and rail) network connectivity and the relatively poor state of these networks; conflicts and security issues; and limited financial resources.

Further, West Africa faces two major phenomena, given the current demographic trends and assumptions about life expectancy and mortality. First, an average annual population increase of 2.6 per cent, which means doubling the population in 25 years, with major consequences for consumption levels. And, second, accelerated rates of urbanization such that by 2030, the urban population shall account for 60 per cent of the total population (UNECA/AUC/AfDB's ARIA IV 2011). As mortality rates diminish, these trends may reach a critical stage in which the question needs to be addressed: 'What economic transformation strategy does West Africa need, and on what basis shall development policies stand, in order to meet most of the demand for food for a population of 455 million inhabitants, 261 to 273 million of whom will live in cities, a population for the most part living in poverty by the year 2030?'[3]

Most West African countries have not succeeded in achieving rapid and sustainable economic growth and development over the past four decades. In view of this, it is reasonable to suspect that poor agricultural performance may be a significant contributory factor to the unsatisfactory

[2] Odularu 2013, as part of the dissertation submitted to the School of Law and Business, University of Sunderland, United Kingdom.

[3] UNECA/AUC/AfDB's Assessing Regional Integration in Africa (ARIA) IV – Enhancing Intra-African Trade, 2011. Available online at http://www.uneca.org/aria4/ARIA4Full.pdf.

performance in the region. One of the challenges facing West Africa is how to utilize agriculture more effectively for economic development than it has been done over the last four decades. How can this be achieved? It is within this context that this thesis seeks to explore the drivers and dynamics of economic development in West Africa.

In spite of the diversity of development issues that confronts West Africa, bright prospects exist for economic transformation through the optimization of its regionally coordinated policy space. In addition to accruing gains from being integrated into the global economy, regional development strategies in West Africa would generate economies of scale, exploit differences in natural resource endowments, and help facilitate and expand opportunities for trade by removing physical, political, and economic boundaries. However, these benefits are not without hurdles. For instance, the prospects of across-the-border collaboration in West Africa are especially challenging, considering that the region contains the most heterogeneous concentration of states in terms of language and colonial history. As a result, the major regional organizations—the Sahel and West Africa Club (SWAC),[4] the Economic Community of West African States (ECOWAS) (Gowon 1984),[5] the Union Economique et Monetaire Quest Africaine (UEMOA),[6] and the Permanent Inter-State Committee on Drought Control (CILSS)[7]—face the significant challenges of coordinating development policies and projects and identifying appropriate forms of stakeholder participation in regional decision-making. In addition to these is the challenge of coordinating the activities of the numerous inter-governmental, inter-sectoral, and regional development initiatives that exist in the sub-region.

[4] The Sahel and West Africa Club (SWAC) comprises a group of West African regional organizations, countries, and international organizations that work together towards the development and integration of the West African region.

[5] ECOWAS covers all the 15 West African countries. However, Mauritania withdrew in 2000. For an extensively detailed account of the efforts targeted at regional integration in West Africa, see Yakubu, Gowon. 1984. 'The Economic Community of West African States: A Study in Political and Economic Integration'. 3 Volumes, 793 pp., University of Warwick, United Kingdom. The electronic version of the doctoral thesis is available at http://wrap.warwick.ac.uk/4397/1/WRAP_THESIS_Gowon_1984.pdf.

[6] UEMOA covers the eight French-speaking West African countries, which include Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Togo, and Senegal.

[7] CILSS covers the Sahelian countries in West Africa.

West African countries have a long-standing tradition of gathering into groupings whose institutional objective is fostering cooperation and economic integration.[8] Consequently, ECOWAS[9] was established to promote a regional-based scheme of development in West Africa, through the creation of a common trade market and the adoption of enabling macroeconomic policies for sustainable development. In particular, its mission is to promote economic integration in all fields of economic activity—industry, transport, telecommunications, energy, agriculture, natural resources, commerce, and financial sectors.[10]

ECOWAS comprises 15 West African countries, which can be subdivided into two groups: the 8 *Union Economique et Monetaire Quest Africaine* (UEMOA) members (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo), which adopted the CFA franc as a common currency,[11] and 7 non-UEMOA members—Cape Verde, Ghana, Guinea, The Gambia, Nigeria, Liberia, and Sierra Leone. ECOWAS was established in 1975 as a free trade area. In 2000, UEMOA also became a custom union, which was eventually extended to cover all of ECOWAS. However, the actual implementation of both internal liberalization and a common external tariff has been very slow and many member countries in practice still do not fully comply with their obligations. A striking challenge

[8] The quest for regional integration stems from a desire to minimize the cost of trade between nations and facilitate market access and growth for the region's industries, as well as to strengthen the economic power of the combined member states vis-à-vis third parties. Further, it is a developmental necessity in relation to trade, economic performance, and strengthening of policy credibility and effectiveness. In other words, strong organizational and institutional initiatives, which are targeted at regional integration will expand the scope of increased intra-regional trade, improved regional infrastructure, more efficient administrative systems, higher levels of investment and industrialization, and reduced political contamination of macroeconomic policies and programmes.

[9] ECOWAS was founded on May 28, 1975, when the geopolitically related Anglophone, Lusophone, and Francophone countries signed the Treaty of Lagos. It comprises 16 member countries. These member countries are Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone (Non-CFA countries) and Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo (CFA countries) as well as Mauritania.

[10] The achievement of these goals will be driven through the implementation of a free trade area and a custom union (elimination of custom duties, quantitative and administrative restrictions to trade, establishment of a common external tariff), the creation of a common market (elimination of all obstacles to the free movement of persons, capital, and services), and the creation of an economic union (harmonization of economic, agricultural, industrial, and monetary policies, and the establishment of a fund for cooperation and development).

[11] The CFA franc is the name of two currencies used in parts of West and Central African countries which are guaranteed by the French treasury.

is the integration of Nigeria, which maintains a very complex tariff structure with high tariff peaks and a complete import ban on a number of products.

West African countries are characterized by a rather heterogeneous group of countries. Nigeria is, by far, the largest member both in terms of its population and in its economic weight. The heterogeneity is more evident in the government sizes, ranging from values around 8 per cent (Guinea) to almost 25 per cent (Mauritania and Nigeria). These data obviously suggest a great heterogeneity in the basic structure of the national economic systems. In addition, this is not unrelated to the strong ethnic fractionalization, which is typically an index of polarization and potentially unresolved and endemic conflict. The greater fractionalization documented for some countries maps into higher values for an index that measures socio-political instability.

In terms of economic structure, only a few member countries have developed sizeable manufacturing industries while most others depend primarily on agriculture, services, and—in some cases—oil and mineral extraction. Mali, Niger, and Burkina Faso are landlocked while all other member countries have access to the sea, although port infrastructure is not well developed in some of them.

1.2.1 Regional Integration Arrangements (RIAs) in West Africa

West African countries are represented on a number of regional integration and development platforms. Some of these include the ECOWAS, Communaute des Etats de l'Afrique de l'Quest (CEAO), Mano River Union (MRU), and UEMOA. The primary objective of ECOWAS is to promote regional cooperation and integration and to create a unified economic space in order to facilitate economic growth and development in West Africa. According to the 1975 ECOWAS Treaty Preamble, the Community was created because of the 'overriding need to accelerate, foster and encourage the economic and social development of member states in order to improve the living standards of their peoples' (Aryeetey 2001).

ECOWAS aims to use regional integration as a potent tool for a custom union and, ultimately, for the establishment of an economic and monetary union that would raise the living standards of its people and

enhance economic stability in the region. The key elements of its policy include eliminating all tariffs and other trade barriers between the member states and establishing a customs union, a unified fiscal policy, a common currency, and coordinated as well as harmonized regional policies in transport, technology, communications, energy, and other infrastructure facilities (CDD 2002).

In terms of population size, it represents the biggest organization for regional integration on the African continent.[12] ECOWAS exists alongside other distinct sub-regional integration arrangements and intergovernmental organizations (Table 1.1). The CEAO was created in 1973 with the establishment of a joint central bank, the Central Bank of West African States (BCEAO). The Mano River Union was also established in 1973. Further, another community in the West African region is a group of the distinct eight countries of the UEMOA, the eight constitute a monetary and customs union. The other seven non-UEMOA countries may be considered as a second group, each with its own national currency.

Table 1.1 Countries membership of regional integration arrangements in West Africa

ECOWAS—1975	*CEAO—1973*	*MRU—1973*	*UEMOA—1994*
Benin	Benin	Guinea	Benin
Burkina Faso	Burkina Faso	Liberia	Burkina Faso
Cape Verde	Côte d'Ivoire	Sierra Leone	Côte d'Ivoire
Gambia	Mali		Guinea-Bissau
Ghana	Mauritania		Mali
Guinea	Niger		Niger
Guinea-Bissau	Senegal		Senegal
Liberia			Togo
Mali			
Niger			
Nigeria			
Senegal			
Sierra Leone			
Togo			

Sources: African Development Report (various issues)

[12] However, this may change with the current Tripartite Agreement between EAC, COMESA, and SADC.

UEMOA was created in 1994 by the Francophone States of West Africa, including all members of the CFA zone. The UEMOA countries share a single currency and monetary policy. UEMOA regionally coordinates the economic, monetary, and trade policies of the member states such that integration performance among these members seems to be at a more respectable level compared to the rest of the West African countries (Asenso-Okyere 2005).

Further, within the ECOWAS region, the Gambia, Ghana, Guinea, Nigeria, and Sierra Leone formed another sub-community, which is called the West Africa Monetary Zone (WAMZ). These countries aim at forming a monetary union, using the ECO as their common currency. The launching of the union was postponed from 2005 to 2009 due to the inabilities of member states to meet the primary convergence criteria. The launch is yet to take off, partly due to macroeconomic inefficiencies in a few of the member states. It is relevant to note that the multiple membership of Regional Integration Arrangements (RIA) by West African countries has undermined the regional growth progress among these countries. Since ECOWAS was created, few of its agreements have been fully implemented, especially as they relate to the free movement of goods and labour, transport facilitation, monetary integration, and transportation (road, air, and waterways).

A quick look at the profiles of these organizations reveals an uncomfortable relationship between colonial inheritances and the spirit of pan-Africanism. The philosophy underlying ECOWAS was that colonial rule had arbitrarily divided markets and fragmented peoples, thereby placing the continent in general and West Africa in particular in a disadvantageous position for achieving development (Odularu 2013). Thus, at the signing of the Lagos Treaty in 1975, when ECOWAS was established, it aimed at overcoming neo-colonial patterns of trade by focusing on four key areas: expanding intra-community trade, improving physical infrastructure, reducing excessive external dependence, and creating a single ECOWAS currency. Article 59 of the Treaty states that member states could belong to other sub-regional organizations as long as their membership did not detract from the ECOWAS provisions (Odularu 2013). This resulted in the creation of the francophone member countries to simultaneously belong to UEMOA,[13] which has experienced various transformations in the past few

[13] Regarding its procedures for accepting and implementing decisions, UEMOA responds to requests from states who want greater regional coherence on particular policy issues. If the

decades. One of these includes all UEMOA members belong to the CFA franc monetary zone, which is pegged to the Euro, and convertibility is assured by the French Treasury. It is generally perceived that UEMOA operates more successfully than ECOWAS. According to a former ECOWAS Executive Secretary, only 45 per cent of ECOWAS programmes has ever been implemented by its member states while the corresponding figure for UEMOA is about 68 per cent. For instance, the UEMOA's trade liberalization scheme became effective in January 2000, resulting in the abolishment of all tariffs on goods produced within the member states, the adoption of a common external tariff (CET), and the standardization of business laws.

1.2.2 Regional Trade and Institutional Issues in West Africa

Despite the increasingly intensified political efforts in recent times, the share of regional trade in West Africa has remained more or less constant, at a rather low level, over the past two decades (between 10 per cent and 15 per cent of total exports go to regional markets, with some fluctuations). However, these aggregate figures are dominated by Nigeria's heavy weight in the region's total exports. These consist mainly of oil and are, to a large extent, directed to the global market (United Nations Commodity Trade Statistics Database).

request is accepted, UEMOA engages in a series of workshops at the national and regional levels to ensure the harmonization of texts specific to the policy area. The executing organ—UEMOA Commission—then passes the finalized text to the Council of Ministers, which examines how to finance the activity in a manner that does not jeopardize the region's macroeconomic stability. This Council consists of two ministers from each member state, one of whom is always the Minister of Finance, and meets at least twice a year. The decisions of this Council are determined according to the principle of unanimity and are subsequently imposed on the member states. If, however, a unanimous decision is not possible at this level, the issue is presented to the Conference of Heads of States, which consists of the presidents of the eight member states. This organ meets at least once a year and needs to abide by the principle of unanimity before a decision can be taken. Once a decision is made, it is binding on all member states. By contrast, the ECOWAS Executive Secretariat, which is the equivalent to the UEMOA Commission, must submit all decisions, acts, and protocols to a highly involved ratification process that ultimately decreases the number of programmes that are actually implemented (Odularu 2013).

Trade openness is a common feature in the sub-region.[14] However, substantial differences still persist. The openness index ranges from about 30 per cent (Burkina Faso) to almost 100 per cent (Mauritania, Ghana, Cape Verde). It must be noted that even if the share of intra-sub-regional trade increases consistently from the date of creation, the level of intra-sub-regional trade is still relatively low. It increased from 3 per cent in 1970 to almost 11 per cent in 2008. Trade integration is more pronounced among West African Economic and Monetary Union (WAEMU) countries following the creation of a common union in the late 1990s.

For some countries, the share of manufactured goods is substantially higher among sub-regional exports than among exports to global markets:

- Benin exports manufactured food, beverages, tobacco (including a substantial amount of cigarettes), and some construction materials (mainly steel and cement) to ECOWAS while exports to BRIC and Rest of the World (RoW) consist mainly of agricultural products (cotton, cashew nuts).
- Côte d'Ivoire exports mainly refined petroleum products[15] to the sub-region. Exports to high-income OECD countries (hiOECD) comprise agricultural (cocoa), mining (crude oil), and food products (cocoa butter).
- Ghana exports manufactured wood, plastic, and textile products to the sub-region. Exports to other SSA are dominated by semi-processed gold to South Africa. Exports to other regions comprise a large percentage of traditional agricultural commodities, mainly cocoa.
- Senegal exports refined petroleum products, construction materials, as well as some food products (margarine, flour, and mineral water) to the sub-region. Export to BRICs is dominated by refined petroleum products while exports to hiOECD comprise mainly fish and other seafood.

[14] During the last four decades, ECOWAS has made quite considerable strides towards the achievement of its goals – tariffs on intra-regional trade have been consistently reduced; free movement of designated goods; and reduction of customs duties and adoption of ECOWAS passport/travel documents.

[15] The classification used for these statistics follows the ISIC Rev. 2 industrial classification, which categorizes refined oil as a manufactured product while crude oil is classified as a mining product.

- Togo, the country with the highest share of intra-ECOWAS exports (59 per cent) exports construction (steel and cement) and packaging materials as well as some food products (margarine, flour, and mineral water) to the sub-region. Export to other regions comprises mainly agricultural (cotton and cocoa) and mining (phosphates) products.

On the other hand, a number of West African countries have higher shares of agricultural and fishery products among their regional exports than among their global exports:

- For Burkina Faso, exports to all regions are dominated by one agricultural product, cotton. Export to West Africa also comprises a few food and tobacco products (Cigarettes, sugar, and vegetable oil) while hiOECD also contain some semi-processed gold.
- Guinea has very low regional exports, about half of which are of fish. Exports to other regions are dominated by aluminum and gold in different degrees of processing.
- For Mali, agricultural products (live animals) are the main export items to West Africa. Agricultural products (in this case, mainly cotton) also play an important role in its export portfolio to BRIC, hiOECD, and RoW. The main export item, however, is semi-processed gold, which is exported to South Africa and hiOECD.

Since the signing of the Cotonou agreement in 2000, ECOWAS countries are also engaged in the negotiations for an Economic Partnership Agreement (EPA) with the EU. The 2006 formal review of the negotiation process already found a lack of progress and persistent disagreement, especially with respect to the agreement's development provisions and the number of resources for financial assistance. Given the delays and difficulties in the negotiation process, the European Commission adopted a two-stage approach, asking non-LDCs to sign 'interim EPAs' limited to trade in goods in order not to lose their privileged market access to the EU (LDCs enjoy duty-free market access under the 'Everything But Arms' (EBA) initiative). Of the four non-LDC members, Ghana and Côte d'Ivoire signed an interim EPA while Nigeria fell back to less favourable EU market access under the Generalized System of Preferences (GSP). Cape Verde, after its graduation from LDC status in 2008, obtained an extension of EBA until the end of 2011. It has now been approved for EU market access under

GSP+, a special market access status granted by the EU to developing countries that commit to international standards on human and labour rights, as well as environmental protection and good governance.

Critics argue that the EPA process can have an adverse impact on regional integration by further complicating the negotiations, imposing deadlines and procedures that are not appropriate for the regions' characteristics (Odularu 2013). Arguably, the introduction of reciprocal free trade with the EU before the consolidation of the regional market also carries the risk of 'diverting' trade from regional markets to EU markets. ECOWAS member countries have, therefore, declared that they see progress with regional integration as a prerequisite for the implementation of an EPA with the EU.

A striking point is the existence of gross inconsistencies in the regional trade policies in West Africa. These trade policy inconsistencies occur at two levels: the community level, between public and trade policies in the region, and the international level. Thus, the prompt policy response to ensuring coherence in these West African trade strategies is essential, both for the region's economic development and for its growing role in continental and regional trade (Rolland and Alpha 2012).

Strong institutions are prerequisites for economic development, as also stated in the Saemaul Undong Movement (SUM). Considering polity scores (an index of the quality of government action) in selected West African countries, it should be noted that there are substantial differences, with some countries ranking relatively well (Senegal, Mali, Ghana, and Benin) while a few countries like Mauritius, The Gambia, Togo, and Guinea are rather poor. Corruption is also endemic and pervasive in West Africa, and it is strongly associated with poor civil liberties, worse political rights, and a high level of ethnic fractionalization.

1.3 The Global Perspective to Promoting Trade Facilitation

One of the driving forces behind the Trade Facilitation Agreement (TFA) is the reduction in cross-border trade costs through the removal of 'border red tape' (AITTIDF 2018)[16] Based on this background, the World Trade

[16] The full implementation of the TFA is estimated to reduce global trade costs by an average of 14.3 per cent, with African countries and least developed countries (LDCs) forecast to enjoy the biggest average reduction in trade costs. Full implementation has also been

Table 1.2 WTO TFA: aims and characteristics

Objectives	*Characteristics*
Speedy release and clearance of goods Expedited movement of export, import, and transit cargo Lower costs of international trade by reducing procedural barriers Co-operation and co-ordination among border agencies within the government and between governments Provision of technical assistance in building capacities	• Transparency in regulations • Predictability in decision-making • Rational, transparent fees and charges • Customs co-operation • Border agency co-operation • Simplifying documentation • Freedom of transit • Advance rulings • Appeal procedures • Transparent penalties.

Source: WCO, 2017. 'Building a Single Window Environment'. Available online at: http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/single-window/compendium/swcompendiumvol1all-parts.pdf

Organization (WTO) Trade Facilitation Agreement (TFA)[17] commits countries to the development and implementation of single window, thereby explicitly mentioning single window in paragraph 4 of Article 10[18] (See Table 1.2). Thus, developing automated systems which are targeted at improving trade facilitation and aiming at revenue collection, social protection, and data/intelligence provision to the government all result in the simplification of trade processes and more effective and modernized customs and border management (WCO 2017). The digitization of commercial transactions, electronic certification, mutual exchange of information, cooperation, and collaboration mechanisms, joint recognition, paperless cross-border trade, and other innovative regional arrangements are effective

found to potentially reduce the average time needed to import by 47 per cent. Cuts in export time will be even more dramatic with estimates predicting a 91 per cent reduction of the current average.

[17] The WTO Trade Facilitation Agreement (TFA) was adopted in December 2013 at the WTO's Ninth Ministerial Conference, held in Bali, Indonesia, under the Doha Development Agenda (DDA). The TFA entered into force on February 22, 2017.

[18] Formalities connected with Importation, Exportation, and Transit.

pathways to trade facilitation (AITTIDF 2018; Adekunle 2018a, b; World Bank 2017; Odularu and Adekunle 2017). Cross-border paperless[19] trade and (electronic) single-window[20] implementation or the readiness of West African economies to engage in the paperless exchange of trade-related data and documents among customs and relevant regulatory agencies, as well as the trading community (traders and service providers) through a national single window. Thus, the ECOWAS member states are at varying degrees of paperless trade and national single window based on the bilateral/regional/ initiatives for cross-border trade and exchange of data. By identifying the common elements and challenges, it creates greater awareness towards enhancing the capacity of relevant West African trade facilitation-related ministries and agencies. In order to fast-track the implementation of the tool, it is important that all the at-the-borders and behind-the-borders sectoral ministries and agencies[21] adopt a well-coordinated approach in the implementation of its capacity-strengthening strategies. Some of the instruments and tools being used by the World Customs Organization towards the inclusive facilitation of trade and the effective management of borders in the twenty-first century include inter alia the Single Window Interactive Map, the Coordinated Border Management (CBM), Integrated Risk Management and Data Harmonization, and so on (WCO 2017; WTO 2015).

1.3.1 *Enhancing Trade Facilitation and Fostering Commerce Through the AfCFTA*

West Africa's performance in terms of exports has been inconsistent over the last decades. The reasons for this have been political instability as well as macroeconomic challenges. The influence of foreign countries in

[19] Paperless trade allows for the coherent flow of trade activities on the basis of electronic rather than paper documents. In other words, it provides the ecosystem where regulatory, legal, and technical tools enhance paperless trade transactions via an electronic single window facility, electronic port management systems, electronic certificate of origin, electronic customs declaration, document simplification and data harmonization, and so on.

[20] A facility that allows parties involved in trade and transport to lodge (once) all the standardized information and documents with a single-entry point to fulfil all import, export, and transit-related regulatory requirements. From the traders' viewpoint, it results in increased integrity and transparency, reduced costs and delays, efficient allocation of resources, predictable rules, and faster clearances.

[21] Cross-Border Regulatory Agencies (CBRA) includes inter alia ministries focusing on trade, industry, tourism, agriculture, finance, mines, parks and wildlife, pharmacy, roads, immigration, border police,

determining Africa's market forces has also led to fluctuations in the prices of commodities coupled with general economic crises experienced across the globe. The issues of NTMs[22] are policy measures that have the potential to have an economic effect on international trade. They shape trade and influence which country trades what and at what price. It has become a big challenge for policymakers, importers, and exporters. Though the main objective of NTM is to protect public health and the environment, they have a significant effect on trade through information, compliance, and procedural costs. In meeting the Sustainable Development Goals (SDGs), a proper understanding of the uses and implications of NTMs are essential for the formulation of effective development strategies. Using the NTM hub, this can be a gateway to information classification, data, research and analysis, and policy support. Improved transparency and a better understanding of NTMs can develop the capacity of policymakers, negotiators on trade, and researchers to strike a balance between the reduction of trade costs and the taking care of public objectives.

African leaders and their representatives from 55 nations met in Kigali, Rwanda, on March 21, 2018, to officially sign and launch the African Continental Free Trade Agreement (AfCFTA),[23] during the Tenth Extraordinary Meeting of the Heads of State and Government of the African Union (AU). This signed agreement has made Africa the biggest free trade zone created since the WTO was established. About 44 of the 55 AU member states put pen to paper to sign the agreement to kick-start the AfCFTA. Forty-seven nations signed the Kigali declaration and thirty countries signed the Protocol agreement on free movement of persons,

[22] Non-tariff measures (NTMs) capture all government measures, other than tariffs or customs taxes, which restrict international commerce between domestic and imported goods and services. NTMs can be described as policy measures that are outside the usual Customs tariffs but still have an economic impact on trade internationally. There are the traditional trade instruments, like quotas or trade defence measures. These measures can be said to be non-tariff barriers (NTBs) because of their discriminatory and protective nature. Very importantly, NTMs are made up of policies that arise from non-trade objectives and are applied to both foreign and domestic producers in an effort to protect against health or environmental risks. Since such measures may affect trade, their application is regulated in WTO agreements.

[23] With Phase One almost concluded, Phase Two negotiations are expected to begin in late 2018 and focusing on provisions for investment, competition policy, and intellectually property rights.

right to residence, and rights to establishment. The NTBs are some of the most prominent barriers to intra-Africa trade. A significant progress will be achieved by the AfCFTA in increasing intra-Africa trade, the facilitation of trade through limiting the number of barrier traders are faced with before their goods (as well as services) are allowed to go across the borders. Though the AfCFTA prioritizes five services sectors—communication, financial, tourism, transport, and business services, the barriers hindering intra-Africa trade continuously and basically remain issues around regulation, customs, and documentation at the border posts, pre-shipment inspection, sanitary and phytosanitary measures (SPS), and the technical barriers to trade (TBTS). The negative effect of these measures on intra-regional trade is crucial but regional economic communities have failed to address the challenges.

According to UNECA (2018), the establishment of the AfCFTA would provide a strong basis for the industrialization and transformation of the African continent towards deepening regional integration and boosting intra-African trade.

A good number of the countries whose economies are doing well in the past decades have been driven by trade-led growth. For most developing countries, economic growth has been based on revenues from commodities. The SDGs post 2015 have, as part of their objectives, the transformation of mineral resources that can drive the economy, thereby reducing poverty. Employment opportunities are created through trade, women are empowered, entrepreneurs make more money, and there are massive investments in infrastructural development. The development of trade relies on an enabling environment, the ease of doing business, and other policy and non-policy factors. If trade must have a significant effect on poverty reduction, the underlying conditions must support favourable sectorial growth patterns and inclusive employment and social policies. It is crucial to combating increased inequalities from trade. Since there is a drop in traditional tariffs, NTMs have become an important topic of discussion on sustainable global trade patterns.

There are positive indicators of a gradual but steady growth of economies in West Africa in the first half of 2018. As the global trade talks continue in many parts of the world on how to reduce tariffs, NTBs among trading countries may enhance the expansion of regional trade and development networks. For instance, the current agreements in South America and Africa, as well as talks by the EU and Mexico in April, 2018 show the seriousness of the NTMs.

Some of the challenges that West African RECs face in their efforts to facilitate trade, as well as address NTBs, include inter alia:

- Overlapping membership: Member States (MS) often belong to more than one Regional Economic Community (REC) with different regulatory requirements. MS are often unable to reconcile the different requirements, leaving traders with regulatory uncertainty.
- The slow implementation of existing commitments related to trade facilitation measures, including the harmonization and coordination of SPS measures, health certification, border operating times, customs documentation requirements, and transit traffic. Implementation is hampered to a certain extent by overlapping membership.
- Lack of transparency and knowledge asymmetry: Due to the inefficient dissemination of information, the commercial ecosystem is fraught with unnecessary hindrances to trade and investment among economic actors, which stems from the incomplete understanding about markets. Regulatory transparency and access to information are significant barriers to intra-Africa trade. Regulations and import requirements are often changed without advanced notice. Trade rules and requirements and subsequent changes are often not readily accessible, making it difficult and costly to trade across borders.
- Lack of trust, especially related to the quality of imported goods, has increased with more stringent SPS requirements and standards, including additional testing requirements and pre-shipment inspections. This makes intra-Africa trade more time-consuming and costly. The lack of trust often relates to the lack of implementation of existing REC commitments as well as delays in harmonizing standards and easing regulations towards lowering transaction costs of doing business in West Africa (like the harmonization of health certification and requirements) due to infrastructure deficiencies and human and financial constraints.

Though most African countries suffer from limited productive capacities and a high infrastructure deficit, addressing these challenges is crucial in order to realize the true potential of AfCFTA within West African economic bloc member states. One of the effective approaches in this regard is for governments, regulators, and organized private sectors (OPSs) to

implement targeted, sector-specific policy options aimed at identifying and resolving intra- and inter-regional trade constraints. Further, the adoption of the trade facilitation agreement at the WTO is very important in reducing transaction costs and also enhancing uniformity of standards.

1.4 Looking Forward

With the increasing tension and confusion being created due to the lack of progress on urgent WTO issues, as well as the trade war between the US and China,[24] more countries are more inward-looking and risk-averse in the global trading ecosystem. Thus, it used to be easier to make most West African and other African countries be signatories to all sorts of regional and global trade facilitation and development agreements. It was in the past that West Africans used to think that multiple representations in regional and global trade agreements are desirable to its macroeconomic trajectory. However, due to a gradual exposure to knowledge and education, an increasing number of West African countries now understand the art of trade negotiations, and they know the implications of being signatories to certain trade rules and regulations. In fact, today, such trade proposals do not readily and expressly attract African trade negotiators and stakeholders. Further, more trade experts continue to challenge the very possibility of signing trade protocols without thorough engagement of the grassroots. This is because Africans are now more aware of the challenges that they have to grapple with due to the implementation gaps and capacity challenges that are carried over from the previous trade epochs. This distressingly wide gap between TF commitment and implementation is also glaring evidence of the capacity needs and challenges being faced by West African countries.

As a matter of fact, regional integration and trade facilitation issues have taken front-burner position in intellectual discourse across African countries. Since the launch of the Continental Free Trade Area (CFTA) in March 2018, there have been academic and political processes geared towards regional integration—the trade facilitation nexus. For

[24] Though the US-China trade war has been looming since March 2018, the trade dispute effectively started on July 6, 2018. The cause of the dispute is due to 'Made in China 2025', which aims to greatly improve the competitiveness of the Chinese manufacturing industry and enable China to become the world's manufacturing powerhouse (Lui 2018).

example, the establishment of Nigerian Trade Negotiations Office (see Chaps. 2 and 3), as well as the African Economic Research Consortium's (AERC) project on 'Re-thinking Regional Integration in Africa for Inclusive and Sustainable Development - Case Studies'. Thus, the content of the proposed book will be useful for similar national and regional programmes.

In order for West African Member States to be able to effectively negotiate the AfCFTA commitments as well as formulate informed trade facilitation policies, there is more need for evidence-based sector studies on market access and national treatment limitations, thereby providing the basis for national consultations with respective regulatory and private sector stakeholders.

The structure of this book may be read as a narrative itself. After the introduction, the second chapter discusses the implementation challenges that Nigeria faces in attaining the TF commitments while the third chapter focuses on the empirical basis for advancing the trade facilitation agenda in West Africa, with a special focus on Nigeria, being the biggest country in the region. The concluding chapter provides some economic development and trade facilitation strategies and policy recommendations for attaining sustained development in West Africa. In its entirety, this book offers workable recommendations which are aimed at enhancing West Africa's trade facilitation and regional integration agenda among the government, private sector, and global development community.

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Africans Investing in Africa

Terence McNamee
Mark Pearson and
Mark Pearson

Understanding Business and Trade, Sector by Sector

Introduction

Paul Collier

This is a timely book. Although for Africa the past decade has been economically benign, attention in the international business media has been narrowly focused. International investors have concentrated on the natural resource sector, due to high prices for its exports, and international consumer businesses have been attracted by the consequential scope for expanding imports of consumer goods. Yet Africa's economies have huge potential for growth that is more widely diffused across many sectors. Despite softer commodity prices, during the coming decade Africa will continue to catch up with the world economy.

Even in the natural resource sector, lower prices will be more than offset by the expansion in the volume of resources extracted, reflecting a decade of investment in prospecting. But the process of attracting further investment into the sector has become much more challenging now that the sector is on the wrong side of the super-cycle. Africa now has its own significant companies and these will more naturally continue to be focused on the region. Especially for these companies, as Chapter 12 discusses, governments will need policies that make investment secure and attractive, while ensuring that resource rents accrue as revenue.

From now on much of Africa's growth will come from harnessing the opportunities for investment and productivity across the economy. Sector by sector, this book discusses those opportunities and the constraints that will need to be overcome. To begin with a seemingly mundane example, as the income of more Africans rises above subsistence levels, discretionary consumption will increase disproportionately. This creates opportunities to revolutionize retail distribution, which in much of the region remains dominated by small scale and informality. The productivity gain from reaping the economies of scale and specialisation that come with malls, supermarkets and retail chains is enormous. This transformation is now happening across Africa, but, as Chapter 9 makes clear, it faces significant policy impediments. The successful management of scale and specialisation in retailing depends on professional expertise, and this is currently concentrated in

relatively few African organisations. Yet as they bring their capabilities to new markets, they often meet resistance from politicians and bureaucrats who are suspicious of non-national companies. They also face logistical problems of moving products across borders: barriers, costs and delays can eliminate the potential productivity gains from organising supply chains regionally.

Further, with discretionary expenditures comes consumer concern for product quality and variety. Firstly, consider the need to respond to the demand for quality. Not only are informal modes of production and distribution unable to harness the gains of scale and specialisation, they are unable to build reputation with consumers. Informal products are not sufficiently standardised for consumers to be able to trust a product based on a past purchase, nor are good informal products legally protected from imitation by look-alike inferior ones. As discussed in Chapter 5, branding offers the solution to these problems, providing the scope for retailers and producers to build reputation with consumers free of the threat of imitation. But African firms are latecomers: international firms can offer African consumers established reputable brands and have the legal capacity to protect them through patents and copyrights. Establishing equivalent African brands urgently requires a phase of investment in advertising and legal expertise: without it, African business will miss the boat as new consumers, in their quest for quality, bond with international brands.

Probably the most important product whose quality urban African households want to upgrade is their housing: except in South Africa, years of neglect in housing investment have left most people living in shacks. People are often physically capable of improving their housing with their own labour, but the key input they need is cement. For decades, little cement was produced locally, and tapping into international supply was stymied by inadequate transport logistics, which are evidently particularly important for cement due to its low value-to-weight ratio. In the past decade, there has been a major expansion in African supply, but demand, driven by the desire for better housing, is also rocketing. As discussed in Chapter 8, it is important that the supply of cement is turned from a bottleneck to a driver of growth.

Now consider the quest for variety. People in poverty make their own entertainment, but one important use of discretionary spending is to widen horizons. The media provide the window onto the limitless emporium of modernity. But far more than in respect of products, the interface between people and information is mediated by culture, and cultures are specific to societies. A Chinese bicycle can be marketed to an African household more readily than a Chinese soap opera, let alone a Chinese newspaper. The expanding demand for information, discussed in Chapter 11, is a huge opportunity for an indigenous African media. On the base of meeting domestic demand, the industry can also meet the previously latent demand in the large African diaspora.

Scale and specialisation, the cornerstones of productivity, can take place only in large markets. Most African countries constitute small markets, and so trade with other countries is critical to rising prosperity. As the opening chapter makes clear, international trade is in Africa's blood: even in the twelfth century, African traders were exchanging goods over huge distances. Yet many countries are currently economically isolated due to a combination of inadequate transport infrastructure and bureaucratic impediments to the free flow of commerce. Being small and isolated is, in economic terms, a death sentence: people are trapped into the inevitable poverty of low productivity activities. While Chapter 1 demonstrates that the relationships that support long-distance trade are part of African tradition, Chapters 4 and 15 take up the associated themes of investment in transport infrastructure and transport logistics.

Africa has never had an infrastructure appropriate for its needs. During the colonial era, transport routes were overwhelmingly extractive: designed to move primary commodities to ports. During the half-century since, governments have seldom prioritised new investment in transport infrastructure. The lack of new investment was compounded by the systematic neglect of maintenance expenditures in budgeting. In consequence, in some respects, Africa's transnational transport infrastructure is even less adequate now than it was in the 1960s. There is, however, a new economic opportunity to finance transport infrastructure arising from the recent natural resource discoveries around the continent. Not only do governments have new revenues, they can be geared up by borrowing on sovereign bond markets: in conjunction with debt relief, credit ratings have improved dramatically. Rather than let new revenues and borrowings be allocated to infrastructure through the budget process, some governments have preferred to exchange the rights to resource extraction directly for the provision of new infrastructure, which typifies the Chinese resource deals. At their best, they provide a mechanism for political commitment of revenues to this important priority, and are much faster than negotiating a sequence of distinct transactions. At their worst, however, they result in opaque and disadvantageous deals.

The scope for big transport infrastructure projects has understandably gained political and media attention. However, while far less dramatic, the removal of bureaucratic barriers to trans-border trade, both at the border itself, through the harmonisation of 'behind-the-border' regulations, would yield even larger benefits to practical transport logistics at radically lesser cost. The two approaches are not alternatives: evidently, if transport infrastructure would lie unused because of bureaucratic impediments, it is not worth building.

The low priority that governments have given to transport infrastructure is a symptom of a wider problem: governments have taken exclusive responsibility for providing a wider range of infrastructure than they have been willing to finance. As Chapter 14 discusses, water is a stark instance of

government insistence on a monopoly commitment for provision on which it has then defaulted. Politicians find it expedient to whip up popular resentment at commercial charges for water supplies by arguing that water is a 'basic right'. Yet other than in a few high-income districts, this is a 'right' that political leaders have repeatedly breached. The same phenomenon used to apply to telecommunications. African governments insisted on a monopoly on landlines for telephones and then failed to provide and maintain them. The transformation of telecommunications was not due to political enlightenment but to the happenstance of technological change. Fortuitously, mobile phones were classified as a sufficiently distinct product that they could be provided without infringing the public landline monopoly. For water, the nearest equivalent is water sold in bottles, which is not judged to breach the public monopoly on water provision. But unfortunately, bottled water is a less adequate substitute for a tap than is a mobile phone for a landline. However, the astounding take-up of mobile phones in Africa, discussed in Chapter 10, has the potential for a broader narrative to be accepted by ordinary citizens: where services can be well-provided privately, it is a breach of rights to insist on the retention of failing public monopolies.

The provision of security is an example of a public service which is technologically distinct from piped water and landline phones. It is invariably provided publicly, through police, because it enforces the rule of law, which is a basic duty of all government. However, while there is a duty of public provision, there is absolutely no technological need for such provision to have a monopoly. The private provision of security services did not need to await technological change analogous to the mobile phone, or labour under the disadvantage that delivering water in bottles is far more costly than delivering it through pipes: private security guards and police use a common technology. Nevertheless, as discussed in Chapter 13, without any technological impetus, private security services have expanded enormously across the region. Good security has repercussions beyond the obvious. As discussed in Chapter 16, one of Africa's best opportunities for diversifying exports beyond primary products is through the sale of tourist services. The continent clearly has huge advantages of natural endowments and proximity to major high-income markets. But an important deterrent to tourism to Africa is exaggerated fear: Ebola, though contained to three countries of West Africa, hit tourism across the continent. Similarly, security incidents anywhere on the continent hit tourism everywhere.

The underlying impetus for the expansion of private security provision is the same as that driving the exceptionally rapid expansion of mobile phones in Africa, namely, the poor quality of public provision. States have simply not got to grips with managing public services. The underlying reason derives from the nature of African politics, which has too often been about patronage rather than performance. In addressing African private investment, African politics is finally inescapable.

The economic implications of African politics appeared even during the liberation process: Africa's polities fragmented. One important economic consequence is that national markets are mostly very small. The only way to reconcile the need for economic scale with political fragmentation would have been to create strong supra-national political authorities, but whereas Europe succeeded in this endeavour, to date Africa has not. As Chapter 3 discusses, trans-national economic integration has lacked powerful champions. The most evident costs have been missed opportunities for shared infrastructure, such as transport routes and power generation, and the proliferation of beggar-thy-neighbour impediments to the flow of trade. But the lack of political energy behind integration has also had consequences for the flow of labour and capital.

Scale and specialisation, the engines of productivity growth, depend not only on cross-border flows of goods, but on the cross-border flow of skills. In politically fragmented markets, the same skill can become unwanted in one small market and yet be in high demand elsewhere. More subtly, people will be less inclined to acquire the specialist skills for which they have an aptitude, if they are restricted to a national market with only a few potential employers. The European Commission has long enforced the principle of the free movement of labour around all member countries, and for most of them movement across borders does not even require a passport. In contrast, as discussed in Chapter 6, movement across many African borders requires a visa with restrictions even more severe for fellow-Africans than for non-Africans. Employment of non-nationals is not only restricted, but in some countries restrictions are being tightened to the extent that even those long resident are being expelled. Even the possibility of such a tightening of policy discourages cross-border movement, and this in turn makes it more difficult for firms to find well-qualified workers. The upshot is that firms are discouraged from investments that would require such workers, and people are discouraged from acquiring specialist skills.

During the 1990s, most African countries liberalised their financial sectors and encouraged international banks to establish local businesses. The theory behind the welcome given to international banks was that their strong reputations would ensure that they remained financially robust, and that their global spread would enable them to diversify the risks inherent in local banks that were purely dependent on a small, volatile national economy. The global financial crisis disabused central bankers of these beliefs. Not only were international banks revealed as risk-prone, but finding that they needed to increase capital relative to liabilities in their core markets, they repatriated capital from their African businesses. This led to a credit squeeze in African markets that was entirely unrelated to African conditions. A lesson from this crisis is that a good way to reconcile diversification with a proper commitment to the local market is to encourage African banks to operate in several national markets. Such a strategy, discussed in Chapter 7, is not without

challenges, because it requires prior agreement among African central banks as to how to manage the failure of either a branch in one country, or an entire banking group. But since the underlying structure of African banking operations is not complex, the task of policy coordination and cooperation is far less daunting than that faced by regulators in the OECD.

In combination, the pay-off to shared infrastructure, easier trade and unimpeded factor movements, is so large that the more purposeful sharing of sovereignty required for genuine regional integration is imperative. Africa has plenty of institutional structures for regionalism: the African Union, NEPAD, the African Development Bank and the RECs. Indeed, arguably, it has too many of them: some countries are simultaneously in several RECs which involve what might become incompatible commitments. To date, too much of this has been driven by the appetite for political theatre: prestigious meetings followed by portentous pronouncements on symbolic steps such as common currencies, but little action on issues that actually matter. What is needed in its place is a business-driven, practical agenda. African businesses need to become more vocal and themselves learn how to cooperate across borders in lobbying for change.

Yet African business has the potential to change African politics more fundamentally than through its lobbying. As Chapter 2 argues, until recently, the only feasible route by which indigenous Africans could become wealthy was through acquiring political power and then abusing it for personal gain. Now, while the political route to wealth has been discredited, Africa abounds in role models of business success. Gradually, this is changing the character of those who seek a political career. Those who aspire to wealth can seek it more productively, and with better chance of success, in business. This opens political opportunity for those who want to serve Africa rather than themselves. This is doubly important because African politics is set to change. Currently, the age gap between citizens and rulers is dramatically wider in Africa than anywhere else in the world. It will not remain so, and a younger generation of African leaders will have fresh priorities.

2
Why Governance Matters for Investment

John Endres

After decades of decline, per capita incomes in Sub-Saharan Africa started rising from 1995 onwards. By 2008, they finally passed their previous peak of $941, seen 34 years previously, in 1974. Since then, they have continued rising, reaching a level of $1,016 in 2013, the latest data available.[1]

These changes in the averages are encouraging and have played a large part in sparking the 'Africa rising' story, but they represent only a tiny sliver of how Africa has changed over the past two decades. There have also been dramatic changes at the very top end of the scale, namely, in the wealth and identity of Africa's most prosperous citizens.

In the past, the principal path to fabulous wealth, and often the only one, was through political power or strong connections to people in political power. Being the president meant that you could build up a tidy nest egg by controlling the treasury and by charging for access to state and natural resources. In this way, leaders such as Mobutu Sese Seko of Zaire, Teodoro Obiang of Equatorial Guinea and Eduardo dos Santos (not forgetting his daughter Isabel, one of Africa's wealthiest women) of Angola managed to become not just dictators, but dollar millionaires and in some cases even billionaires, according to Forbes magazine.[2]

Not only did this represent illicit self-enrichment on a staggering scale, it usually also resulted in large amounts of money leaving the country, spirited away to be deposited in secret bank accounts and tax havens. According to Global Financial Integrity (GFI), a research organisation based in Washington, DC, an estimated $854 billion to $1.8 trillion were taken out of Africa in the form of unrecorded, illicit financial outflows between 1970 and 2008.[3]

This figure is comparable to the entire continent's annual GDP at the end of that period ($1.6 trillion in 2008),[4] and dwarfs the annual

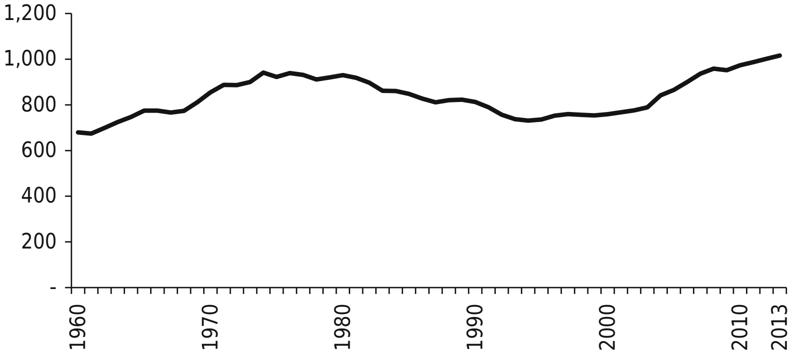

Figure 2.1 Per capita incomes in Sub-Saharan Africa (in US$)
Source: World Bank, *World Development Indicators*, http://databank.worldbank.org.

financial inflows. In fact, the total amount of money thought to have been removed from the continent implies that the continent is a net creditor to the rest of the world[5] – and the figures do not include most proceeds from drug trafficking, human smuggling and other criminal activities, which are often settled in cash. For a capital-deficient continent with a capital spending backlog, dependent on the charity of strangers in the form of foreign aid, this diverted money spells decades of missed opportunities for development. The funding gap came about as a direct result of fraud, theft and trade mispricing enabled by bad governance.

Now contrast the wealth of Africa's dictators with that of the developed world's most successful businessmen. Few Africans managed to become the Bill Gates or Warren Buffet of their countries after decolonisation, and no wonder: success would immediately have attracted the covetous attention of the political elite. Therefore, the choice was between giving up one's grand ambitions or being co-opted into the system. The prospects for making a fortune without controlling the state's lever of powers, or having privileged access to those who controlled them, were slim. Many businessmen concluded that it was safer to pretend to stay small and hide whatever successes they could achieve.

This has changed over the past decade. Since 2011, it has become worth Forbes's while to compile a list of the wealthiest Africans, who, although often politically well connected, managed to build their fortunes through trade and business rather than by exercising power.[6] Notably, some extremely successful African businessmen have built their fortunes not in the usual sectors such as oil or mining, but in communication,

financial services or building materials. In other words, fortunes are now being made based on offering value to customers, rather than on skimming rents from resources.

This is an important and welcome change. The emergence of extremely wealthy entrepreneurs indicates that space is beginning to open up for ordinary citizens to generate wealth. It means that more people are deciding to keep some of the fruits of their labour within Africa, re-investing to reap the benefits of fast-growing economies.

Rising GDPs and the bulging net worth of wealthy individuals reflect a change in the economy. But what about politics and governance? Have improvements in one area been accompanied by improvements in the other?

Here, the picture is mixed. The World Bank's key measure of governance, the Worldwide Governance Indicators, for instance, shows that just three mainland African countries, Botswana, Namibia and South Africa, as well as three island nations, Mauritius, Seychelles and São Tomé and Príncipe, managed to achieve positive governance scores in 1996, the first year that these statistics were collected. By 2012, the latest year for which figures are available, only a single mainland country, namely, Ghana, had joined the group. Apart from some islands (Cape Verde, Mauritius, Réunion and Seychelles), all other countries remain stuck in negative territory.[7]

However, it is also worth taking a look at which countries showed improvements over the same period. The result inspires slightly more hope: 25 countries, almost half of the total, improved their scores. If they manage to stay on this path, there will soon be many more countries with positive governance scores. And this may be the more significant observation: although most countries have not yet managed to break into positive territory, the fact that they are getting better may be enough to give African investors enough confidence to keep their money on the continent.

A further factor inspiring confidence is that most African countries have abandoned their earlier dalliances with socialism and its derivatives. The experiences of the former East Bloc countries have thoroughly discredited this political philosophy. A belief in democracy and free enterprise has supplanted it – conditions much more favourable for nurturing successful entrepreneurs and growing economies.

The end of the Cold War, and with it the ending of the proxy wars and ideological battles, has also given a different character to African business identity. African business and political leaders seek to speak to their peers from other continents at eye level, rather than being seen as the permanent underdog or supplicant, as in the past. The wealth of Mobutu

Sese Seko and the glittering trappings of Emperor Jean-Bédel Bokassa's power, for instance, may have impressed onlookers and inspired fear and deference, but not respect. The next generation of Africans wants to bask in earned respect, not deference.

But this process of economic improvement is still at its very beginning, and fragile. Africa now finds itself at a fork in the road: the low road beckons with corruption and indifferent (at best) governance. The political elites continue to enrich themselves, while ordinary citizens start becoming poorer again, as in the past. What's more, it is by no means certain that demand for Africa's commodities, as well as the prices of those commodities, will remain as high as they have been over the past decade and a half. Instead, scenarios like a slow-down in China's economic growth and increasing reliance on alternative energy sources like renewables and shale gas may cause demand for African resources to flag.[8] Combined with a rapidly growing population unable to produce the goods and services that consumers throughout the world want, the result is frustration, impoverishment and instability, leading to further declines in governance quality, greater poverty and a widening gap between Africa and the rest of the world.

By contrast, there is a high road that leads to a virtuous cycle. In this scenario, better governance enables stronger business growth. Higher economic growth lifts millions out of poverty and allows an increasingly assertive middle class to emerge, which clamours for further improvements in governance, such as more transparency, more accountability, more political freedoms and better service delivery. If such a cycle is set in motion, the countries participating in it may find themselves transformed within a generation, much as Asia's tiger economies did.

Although it may be true that better governance leads to higher growth, better governance is not cheap – which may explain why wealthier countries often have better governance, as Mushtaq Khan, an economist at the School of Oriental and African Studies in London, pointed out in a 2007 paper.[9] Developed economies have the resources needed to create and enforce property rights, uphold the rule of law, reduce corruption and provide public goods and services transparently, accountably and in response to democratically expressed preferences. For African countries that have benefitted and continue to benefit from demand for their resources, the implication is that they should make an effort to employ the windfall revenues to improve governance.

There is a further noteworthy aspect to the link between governance and growth: better governance also means formalising the economy by registering, regulating and taxing companies operating in the informal sector. The benefits for the state are obvious: apart from additional

income for the state coffers, formalisation also allows statistical offices to gain a more accurate understanding of economic activity in the country. Although empirical evidence suggests that formalisation correlates with higher per capita incomes, there is a risk in poorly governed countries that tax revenues go straight to corrupt officials rather than to the state coffers, as well as opening up more scope for kickbacks or extortion.[10]

For informal enterprises, getting caught in the net of state surveillance and taxation may seem like a bad deal, but it has its upside: informal businesses are often destined to remain small because they have to remain inconspicuous to avoid the state's attentions and because they find it harder to access funding for expansion from banks and investors. Becoming formally registered removes these impediments, allowing enterprises to grow to much larger sizes. Larger enterprises are able to benefit from economies of scale and greater division of labour, making them more efficient and able to offer better products and services to consumers.[11]

Although most people detest being coerced into making involuntary contributions to the state coffers, taxes have an important role to play in governance. The more a state depends on taxes from individuals and companies, the more accountable it has to be to both. Those paying the bill are more likely to question what is being done with the money when they are citizens than when they are foreign governments (in the case of development aid) or large concerns exploiting natural resources, eager to maintain friendly relationships with the host country government.[12]

Africa still faces enormous challenges. Corruption is pervasive, physical infrastructure lacking or insufficient and states appear incapable of delivering the services that many citizens need or desire.[13] Poverty remains shockingly high and the high population growth rates raise the spectre of enormous masses of young, frustrated people finding ways to express their outrage destructively. Violent extremism is on the rise in east and west Africa, and some regions, like South Sudan and the Central African Republic, are descending into violent anarchy.

Yet many of these problems have existed, in one form or another, for decades. It is only in the past 10–15 years that the prospect has emerged, however slim its chances, of a change in this situation. It is not just because there has been some economic growth where previously there was very little. It is also because all African countries now conduct elections, most allow multiple parties to participate (or at least pretend to) and several have experienced a change of leadership by means of elections. Governance, though far from perfect, is beginning to improve. International relations do not need to focus inexorably on the former colonisers in the Western world, but can be built with countries such as Brazil, China and India in the global south.

In other words, in the political realm as much as in the economic, the idea is beginning to take hold that things can get better. Instead of stagnation and decline being inevitable, growth and rising prosperity are seen to be possible. From seeing that these things are possible, it is a small step to demanding that they be made true. And this is essential: Africa cannot be improved from the outside. It has to be done from the inside, by Africans who want it to be done and are ready to make sure that it is done. Africans investing in Africa is both an expression of this increasing assertiveness and a driver of ongoing improvements.

Notes

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3
Regional Economic Communities

Jacqueline Chimhanzi

There is, arguably, no greater topical issue in Africa than that of regional integration – a concept whose time has definitely come but whose operationalisation is still in the making and upon which Africa's massive unrealised potential lies. Central to the importance of Regional Economic Communities (RECs) is their cross-cutting nature that transcends virtually all economic activity and sectors – from manufacturing, energy, infrastructure and financial services to tourism – underpinned by a very simple rationale – that there is strength in numbers. Given the transformative potential of regional integration, the integration discourse is actually best located in the broader context of development and economic transformation – beyond merely 'fixing borders' as an end in itself. Marcelo Giugale, the World Bank's Africa Director for Poverty Reduction and Economic Management, aptly expressed it as follows: 'The final prize is clear: ... Africans trad[ing] goods and services with each other. Few contributions carry more development power than that'.[1]

Despite this recognition of the salience of regional integration, it is not happening fast enough and undermines Africa's continued 'rising' and competitiveness. The African market is highly fragmented. With a similar population size to China and India, Africa is, in comparison, 54 markets, China 1 and India 1, and therein lies the challenge for companies – both international and African – wanting to access African opportunities and do business on the continent. Africa's intra-trade levels remain low compared to other regions in the world.

The chapter opens with the rationale and context for the need for RECs on the African continent followed by an overview of the state of play in the development of African RECs. There will then be a focus on attempting to understand the underlying issues accounting for low intra-regional trade. This is followed by a specific focus on the East African Community (EAC), deemed one of the better performing and most dynamic RECs. Justification, along different performance metrics and indicators, is provided for with the selection of the EAC as a focal case study. The experience of the MeTL Group based in Tanzania and recognised as a leading East African industrial

conglomerate is used to illustrate the realities of operating within the realm of the EAC legislative framework. In a departure from Africa, the case of Airbus, touted as a 'pragmatic' approach and presenting a different architecture to regional integration, is examined. Insights and learnings are drawn from both the East African and Airbus experiences, and the chapter closes with policy recommendations for African RECs.

The need for Regional Economic Communities

It is observed that 27 of Africa's 54 countries are small, with national populations of fewer than 20 million and economies of less than US$10 billion.[2] Infrastructure systems, like borders, are reflections of the continent's colonial past, with roads, ports and railroads built to facilitate the export of raw materials, rather than to bind territories together economically or socially.[3] *The Economist*,[4] in a seminal piece titled 'Aspiring Africa', boldly challenged African leaders: 'Why not rekindle pan-Africanism by opening borders drawn in London and Paris?' In short, decades after the end of colonialism, African countries continue to be doubly challenged by size and connectivity[5] and are unable to compete on favourable terms on the scale that is required for competitiveness. According to Mohammed,[6] this is more so the case where exports are specialised, making them yet more vulnerable from a scale perspective. Against this backdrop, is increasing globalisation with cost-efficient producing countries, such as China, presenting a new form of competition for Africa?[7] The net impact has been Africa's deindustrialisation, as evidenced by the share of manufacturing in African GDP falling from 15 per cent in 1990 to 10 per cent in 2008.[8] The implications of this trend for intra-African trade and how African countries can rebuild their productive capacities and attain competitiveness should strongly form part of the new regional agenda to boost intra-African trade.[9]

The World Economic Forum's (WEF) Global Competitiveness Report 2014–2015 defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country." (WEF, 2014:4). The index is based on a composite score that ranks countries on 12 pillars of competitiveness. According to this ranking, seven of the ten least competitive countries are African. Strikingly, on the contrary, seven African countries feature on the list of the ten fastest growing economies in the world, in the period between 2011 and 2015: Ghana, Ethiopia, Tanzania, Zambia, DRC, Nigeria and Mozambique (The IMF/Economist 2010 in The Economist, 2011). In juxtapositioning these two sets of statistics and realities – pertaining to a continent whose countries occupy the lowest positions on competitiveness rankings whilst also simultaneously occupying the highest rankings on the world's fastest growth index – a powerful message emerges: that Africa has significant growth potential which, however, can only be further unlocked and sustained through regional trade and the

resultant competitiveness. Indeed, whilst the African narrative has shifted from 'The Hopeless Continent'[10] to 'The Hopeful Continent: Africa Rising',[11] the case for regional integration has never been more compelling even as the new face of Africa is celebrated. A lack of integration represents the biggest threat to Africa's continued rising.[12]

It against the backdrop of this recognition for the need for integration that the notion of an African Economic Community (AEC), comprising eight regional economic communities, was conceived. The ultimate aim of the AEC is continentally uniform economic, fiscal, social and sectoral policies and the creation of a 'single competitive market' that increases the interconnectedness of African economies.[13] The Sirte Declaration, signed in 1999, called for the formation of the African Union and the speeding up of the provisions of the Abuja Treaty to create an African Economic Community. The Abuja Treaty signed in 1991 had defined the migration path for how the AEC would be achieved via a six-stage process over a 34-year period[14] ending in 2028 (see Table 3.1).[15]

There are a total of 14 RECs on the continent though only 8 are recognised by the African Union (see Table 3.2). Six African countries are members of only one REC, 26 are members of two RECs and 20 are members of three RECs, while only 1 country belongs to four RECs. The main reason provided for membership of more than one REC is that countries believe this enhances their political and strategic positioning.[16] However, practically, it is challenging as it has led to 'duplication and overlapping protocols, structures and mandates'.[17]

Table 3.1 Six stages of the establishment of the African economic community

Stage	**Goal**	**Time Frame**
1	Creation of regional blocs in regions where such do not yet exist	Was to be completed in 1999
2	Strengthening of intra-REC integration and inter-REC harmonisation	Was to be completed in 2007
3	Establishing of a free trade area and customs union in each regional bloc	To be completed in 2017
4	Establishing of a continent-wide customs union (and thus also a free trade area)	To be completed in 2019
5	Establishing of a continent-wide African Common Market (ACM)	To be completed in 2023
6	Establishing of a continent-wide economic and monetary union (and thus also a currency union) and Parliament	To be completed in 2028
	End of all transition periods	2034 at the latest

Source: Abuja Treaty, Article 6.

Table 3.2 African states' REC memberships

Regional Economic Community	Member States	Formation Year	Headquarters
CEN-SAD (Community of Sahel-Saharan States)	Benin, Burkina Faso, Cape Verde, Central African Republic, Comoros, Côte d'Ivoire, Chad, Djibouti, Egypt, Eritrea, Gambia, Ghana, Guinea-Bissau, Guinea, Kenya, Liberia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Tunisia.	1994	Tripoli, Libya
COMESA (Common Market for Eastern and Southern Africa)	Burundi, Comoros, Democratic Republics of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	1994	Lusaka, Zambia
EAC (East African Community)	Burundi, Kenya, Rwanda, Tanzania, Uganda	1966–1977 then 2000–present	Arusha, Tanzania
ECCAS (Economic Community of Central African States)	Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Republic of Congo, São Tomé and Príncipe	1983	Libreville, Gabon
ECOWAS (Economic Community of West African States)	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	1975	Abuja, Nigeria
IGAD (Intergovernmental Authority on Development)	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Uganda	1996	Djibouti, Djibouti
SADC (Southern African Development Community)	Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	1980	Gaborone, Botswana
UMA	Algeria, Libya, Mauritania, Morocco, Tunisia	1989	Rabat, Morocco

Source: UNECA (http://www.uneca.org/oria/pages/history-background-africas-regional-integration-efforts).

Consequently, countries are stretched with resources being inefficiently used[18] and RECs grappling with 'existential and credibility issues'.[19]

The streamlining and consolidation of RECs in different regions remains a key challenge for the realisation of both regional and pan-African economic integration. In the interim, in the process of migrating towards the AEC, there is a 'milestone' – Stage III – to form free trade areas and customs unions. The Tripartite Free Trade Area (TFTA), for example, comprising the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) regional bodies, will encompass 26 African countries, representing more than half of the AU membership, with a combined population of 530 million (57 per cent of Africa's population) and a total GDP of $630 billion or 53 per cent of Africa's total GDP.

Assessment of the performance of RECs against their mandate

In light of the aforementioned strategic context outlining the mandate and scope of RECs, what is the state of play of African integration? There would appear to be consensus that, overall, the implementation of the Abuja Treaty has not been satisfactory. The progress attained, thus far, by the RECs has been described as 'mixed',[20] 'slow and partial'[21] and as being 'punctuated by periods of stagnation or blighted by reversals, with modest achievements, at best, in a few instances'.[22] The net impact of these varying levels of maturity in the development of RECs is that Africa has integrated with the rest of the world faster than with itself. Levels of intra-Africa trade remain extremely low at 11 per cent, whilst 40 per cent of North American trade is with other North American countries, and 63 per cent of trade by countries in Western Europe is with other Western European countries as depicted in Table 3.3.

Specifically regarding free trade and customs unions, limited progress is recorded in four of the eight RECs, namely, UMA, ECCAS, CEN-SAD and IGAD, whilst important progress has been achieved in COMESA, EAC, SADC and ECOWAS (see Table 3.4). Given the uneven progress, the overall present state of African economic integration is insufficient to support achievement of the African Common Market.

Explanations for low levels of regional integration

The large disparity among regional groupings in terms of intra-regional trade is clearly attributable to their differentiated levels of progress in implementing the structured set of modalities designed to eliminate trade barriers and non-tariff barriers (NTBs). Tariff barriers emanate from taxes and duties

Table 3.3 Comparisons of different continents' intra-regional trade levels

Region	2000 (in per cent)	2009 (in per cent)
Africa	9.2	11.7
Asia	49.1	51.6
CIS	20.1	19.2
Europe	73.2	72.2
Middle East	8.7	15.5
North America	55.7	48.0
South and Central America	25.6	26.1

Source: WTO Secretariat.

Table 3.4 Estimated value and share of intra-REC trade, 2009

REC	Value of Intra-REC Exports (US$ Billions)	Share of Intra-REC Exports (in per cent)
AMU	3.9	4.6
CEMAC	0.1	0.5
COMESA	6.4	6.8
EAC	2.4	23.0
CEEAC	0.2	0.3
ECOWAS	7.7	9.7
SACU	2.9	4.2
SADC	16.0	12.2
UEMOA	2.7	14.5

Source: WTO Secretariat and UN Comtrade.

that undermine trade while non-tariff barriers refer to non-tariff related trade restrictions resulting from prohibitions, conditions or specific requirements that render the importation and exportation of goods difficult or expensive.[23] These include red tape and bureaucracy, inefficient customs and border posts and poor infrastructure for the movement of goods between countries. Also, licensing rules, import permits and standards, including their implementation, fall within this category.

A key challenge militating against effective regional trade relates to the delays in moving goods across borders within and between regions. Delays in terms of crossing borders are, on average, longer than in the rest of the world: 12 days in Sub-Saharan countries compared with 7 days in Latin America, less than 6 days in Central and East Asia, and slightly more than 4 days in Central and East Europe.[24] These delays add a tremendous cost to importers and exporters and increase the transaction costs of trading among African countries. For food and other perishable goods, such delays can be devastating.

According to Brenton and Gözde,[25] 'thickness of borders' (2012:8) is a proxy for ease of access; thus, the denser the border, the more the country limits trade, travel and the flow of factors of production. A World Bank survey found that African borders are very 'thick' relative to other parts of the world. This was highlighted by President Mahama of Ghana, on a World Economic Forum panel in Davos in 2014, who noted that goods being transported from Nigeria to Ghana need to go through six border posts paying both 'official and non-official' fees. In yet another example, the Chirundu One Stop Border Post, between Zambia and Zimbabwe located on either side of the Zambezi River, often touted as an example of progressive border post management on the continent, is beset by a number of challenges. Anecdotal experiences of using this border post suggest that whilst processing times have been reduced, the border post is not fully realising what it was set up to achieve.

Another key constraint relates to the high volume of paper-work to be processed owing to rules of origin. By determining the origin of goods, rules of origin is the instrument used to prevent trade deflection, to ensure that only the member states of a preferential trade arrangement benefit from the negotiated tariff preferences. It is, however, deemed that SADC rules of origin are particularly stringent as they are based on sector or product-specific requirements. The experience of Shoprite, the largest retailer on the African continent, is illustrative of this form of trade barrier. In a report examining the barriers that stifle cross-border trade within Africa, the World Bank revealed that the retailer spends US$20,000 a week in import permits to transport meat, milk and other goods to its stores in Zambia alone. Approximately 100 single entry import permits are applied for every week, and this figure could rise up to 300 per week in peak periods. On average, according to the World Bank, there can be up to 1,600 documents accompanying each truck the retailer sends with a load that crosses a border in the region.[26]

For garments, the rule is even stricter and requires that two stages of transformation take place in a SADC member state for the garment to qualify for SADC preferences. This means that either the fabric, the yarn or the garment has to be manufactured in a SADC member state. With very little textile manufacturing in this region, the rules effectively limit the trade of garments in this region.[27] The administrative requirements for certificates of origin can account for nearly half the value of the duty preference. Shoprite, therefore, opts not to claim SADC preferences in sending regionally produced consignments of food and clothing to its franchise stores in non-SACU SADC markets. Instead, it pays full tariffs.

While rules of origin can be used, just as import tariffs, to protect domestic industry from import competition, a balance needs to be struck so that companies are not over-burdened by being obliged to use inputs from specific sources and having to adapt production processes to meet the rules of origin

requirements to qualify for preferential market access. As stated by the World Bank in their seminal annual *Doing Business* reports and with great relevance here: It is 'about smart business regulations, not necessarily fewer regulations'.[28] Reforms to minimise costs could come from two sources: reforms in the rules of origin itself in the form of simplification and easing of standards, and reforms in the administrative procedures, particularly the certification process. A complex ROO regime accompanying a free trade agreement can further complicate rather than facilitate trade in the region. There is the need for the streamlining of customs procedures and simplification of customs clearances, including the introduction of paperless trading with the objective of minimising documentation costs.[29]

Underlying these barriers are issues of leadership and political will. In superimposing various states' memberships, a complex and convoluted picture emerges (see Figure 3.1) which provides explanations for the slow progress towards integration. While the REC is the unit of analysis and the explicit focus of this chapter, there is recognition of the tensions that are inherent in how individual countries interact with their REC(s) as well as how the different RECs themselves align in evolving to become a single monolithic

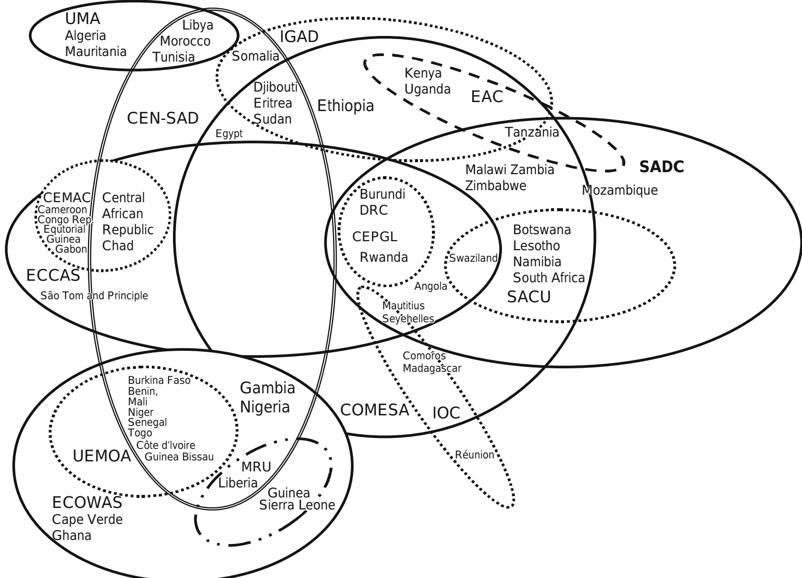


Figure 3.1 Overview of overlapping African countries' REC memberships

Source: Economic Commission for Africa, 2006, in ECA, AUC and AfDB (2010). Assessing Regional Integration in Africa IV. Enhancing Intra-African Trade. United Nations publication. Sales No. E.10.II.K.2. Addis Ababa.

free trade area. The African REC, therefore, straddles both national and supranational contexts and therein lies the complexity in operationalising the regional trade mandate.

At the opening session of the 2013 African Development Bank's Africa Economic Conference, South Africa's then finance minister, Pravin Gordhan, acknowledged this collaboration/competition tension stating that treading this fine balance requires a 'special kind of leadership' that appreciates sovereignty yet relinquishes aspects of it for the greater regional good. A particularly fitting illustration of this is how African states continue to negotiate as individual countries and not as RECs, thus losing the opportunity to leverage scale. By mid-2010, for example, African countries had signed 748 bilateral investment treaties, 140 of which were with other African countries.[30] Whilst, for instance, a singular negotiator, the European Commission, carries out negotiations on behalf of the European Union, no REC Commission or Secretariat negotiates on behalf of their member countries.

Integration continues to be viewed as threatening whereas it should be viewed as a win-win policy and not as a zero-sum game. In similar vein, UNCTAD[31] finds it difficult to understand why countries are reluctant to adopt common standards and regulations from which they are all likely to gain. This points to the need to actively manage the soft side of integration. Fears of sovereignty being undermined need to be mitigated against as they are unfounded. Empirical evidence points to the potential benefits of integration. In a study by TradeMark Southern African, the potential benefits of a successful TFTA were outlined in the impact study, 'General Equilibrium Analysis of the COMESA-EAC-SADC Tripartite FTA'. The report considered eight TFTA simulator scenarios and found that net real income gains would accrue to members of the TFTA generating annual welfare gains of $518 million.[32] It is perhaps due to this perceived loss of sovereignty that African governments have not successfully managed to mainstream and integrate regional trade mandates into national policies. It would appear that countries have not 'internalised' regional trade imperatives as planning for the state and for the region continue to happen in parallel, not concurrently nor in an integrated manner. On this, Rwanda's experience is instructive. The country is embarking on socio-economic transformation that is to be attained via regional integration. This aspiration has, subsequently, been enshrined in the country's Vision 2020.

While the AU has set up the Conference of Ministers in Charge of Regional Integration to holistically look into the implementation of protocols, harmonisation of policies and programmes and coordination between RECs, there is a 'hearts and minds' aspect that cannot be addressed by policy instruments. Winning hearts and minds could be the basis for building the necessary political will.

Regional Economic Communities and private sector development: towards a new paradigm

There is a compelling case for the reinvigoration of the African integration agenda. There is a need to locate the issue of intra-Africa trade in the broader context of private sector development (PSD) and the development discourse, which transcends 'fixing borders'.[33] This is corroborated by UNCTAD[34] in stating that although inefficient customs and regulatory procedures certainly hamper trade in the region, experience has demonstrated that the main barriers to increasing intra-African trade are often not found at the border. Trade facilitation needs to be an integrated part of development strategies in most African countries because it is a catalyst for further progress in areas beyond trade and export expansion.[35] It is only in this broader context that the import of regional integration can be effectively conveyed. Rippel[36] illustrates how trade facilitation across borders can contribute to reaching development goals (Figure 3.2).

UNCTAD[37] proposes a shift in paradigm from a linear and process-based approach to integration. They view the current paradigm as having an undue focus on the elimination of trade barriers and subscribe to a more development-based approach to integration, which pays as much attention to the building of productive capacities and private sector development as to the elimination of trade barriers. It is contended that the current integration paradigm does not address adequately the fundamental supply side constraints – a weak private sector, poor labour productivity, lack of access to finance, inadequate infrastructure, low institutional capacity and low access to technology and innovation. These collectively constitute an ecosystem and in its absence, companies cannot achieve manufacturing and productive capacities to ensure that there are goods and services to be had for regional trade, in the first instance. African countries will struggle to compete favourably against growing global competition without an outward reorientation of their trade policies.

On labour productivity specifically, Rankin, Söderbom and Teal (2006) conducted a study comprising 1,012 firms spanning the period from 1992 to 2003 in five countries: Ghana, Kenya, Nigeria, South Africa and Tanzania. The key conclusion drawn from the findings is that firms with higher labour productivity are more likely to export than those with lower labour productivity. Moreover, African manufacturing firms generally have lower labour productivity than firms on other continents. Thus, if African governments want to boost intra-African trade, they will have to enhance the export competitiveness of African manufacturing firms by addressing these obstacles to productivity growth.[38]

UNCTAD[39] attributes poor regional integration outcomes, in part, to the limited role of the private sector in regional integration initiatives and efforts. In a telling 2012 UNECA survey,[40] 31 per cent of respondents stated

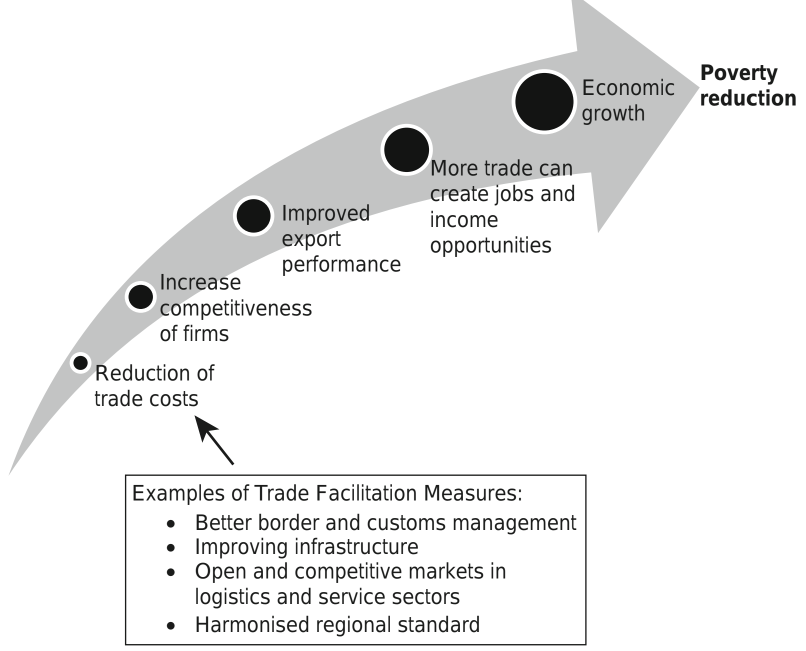


Figure 3.2 How trade facilitation can contribute to reaching development goals

Source: Rippel, B., "Why Trade Facilitation Is Important for Africa," in World Bank 2012: "De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services".

political motivations for joining a REC, 39 per cent cited economic reasons, 16 per cent cited geographic reasons, 6 per cent historical and 8 per cent cultural. This further supports the assertion that even for those RECs with a trade agenda, trade is not always their overarching priority despite all their pronouncements. While trade agreements are signed by governments, it is the private sector that understands the constraints facing enterprises and is in a position to take advantage of the opportunities created by regional trade initiatives. While there are business councils, governments remain the only active drivers of regional integration in Africa and the private sector remains a passive participant in the process. If African governments want to achieve their objective of boosting intra-African trade, they have to create more space for the private sector to play an active role in the integration process. But more importantly, the African private sector must be able to occupy that space. Evidence, however, points to a weak African private sector with limited capacity. For instance, most African private sector jobs are in the informal sector with only 2–10 per cent of African workers occupying permanent/formal wage employment. Permanent formal employment in the private

sector is highest in South Africa, Botswana and Egypt at 46 per cent, 23 per cent and 18 per cent, respectively.[41] The African scenario, as depicted, is said to contrast sharply with that in Asia, where the private sector is strong and plays a crucial role in shaping the integration agenda.[42]

Rationale for the focus on the East African Community

Given the aforementioned context of African RECs continuing to experience constraints in terms of boosting trade and investments, a key objective of this chapter is to identify best practice that offers learnings and insights for African RECs. To that end, there will be a focus on the East African Community. While the EAC case study will highlight best practice, this is not to imply that it is without its challenges. According to Paul Collier, '[T]oo much attention may have been given to the symbolism of monetary union and common currency, and too little to opportunities for cooperation in creating a shared infrastructure for the community'. Moreover, an assessment of the EAC in its inaugural EAC Common Market Scorecard of 2014 identified at least 63 non-conforming measures in the trade of services and 51 non-tariff barriers affecting trade in goods, while in capital, only two of the 20 operations covered by the Common Market Protocol are free of restrictions in all of the EAC partner states.[43] The Scorecard assesses progress toward the development of a common market in capital, services and goods across the Partner States of the EAC and in terms of commitments made by the Partner States, outlines progress in removing legislative and regulatory restrictions to the Protocol, and recommends reform measures. Member states are assessed for compliance with 683 laws and regulations relevant to the common market – 124 in Capital, 545 in Services and 14 in Goods. Notwithstanding the indictment according to the Scorecard findings, the EAC is still lauded as the top performing African REC on a number of indices and metrics (see Figure 3.3). Table 3.4 depicts the EAC as having had the highest levels of trade with intra-REC exports accounting for 23 per cent of all exports in 2009. This is in stark contrast to CEMAC's 0.5 per cent and SADC's 12.2 per cent. Implementation of the Customs Union Protocol in 2005 has had a positive impact on intra-EAC trade which has grown from $US2 billion in 2005 to $US5.5 billion in 2013, a growth of 36 per cent.[44]

Regarding, specifically, the export of services, Africa has experienced growth at an average annual rate of 14.2 per cent in the period 2000–2008 with significant variations in services export growth among African RECs.[45] Again, on the basis of this metric, the EAC recorded the fastest average annual growth at 17 per cent, while COMESA and SADC services exports grew at 14 per cent, and ECCAS and ECOWAS services exports grew at 10–11 per cent, lower than the average for Africa.

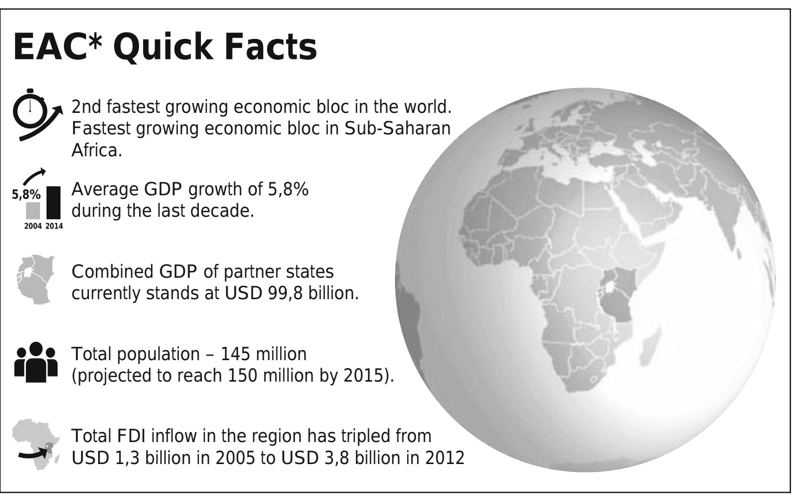


Figure 3.3 EAC quick facts

Note: *The East African Community (EAC) is the regional intergovernmental organisation of the Republic of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda, with its headquarters in Arusha, Tanzania.

Source: Africa Practice (2014), "East Africa Integration: State of Play," Africa Practice InDepth.

The very establishment of the Scorecard itself, in the first place, and less so the outcomes of the scoring exercise, is indicative of the EAC's commitment to a functioning REC. The Scorecard has established a starting point for continuous improvement based on a quantifiable basis.

Background to and context of the East African Community

There has been a long history of cooperation under successive regional integration arrangements in the region. Kenya, Tanzania and Uganda have participated in regional integration arrangements dating back to 1917, starting with a Customs Union between Kenya and Uganda in 1917, which the then Tanganyika (Tanzania) joined in 1927; the East African High Commission (1948–1961); the East African Common Services Organization (1961–1967); the East African Community (1967–1977); and the East African Co-operation (1993–2000). The relative success of the EAC is often attributed to the community having transitioned through many phases and, as a result of the failures and collapses, for example, in 1977, it is stronger.

The second iteration of the EAC was established in 2000 by Kenya, Tanzania and Uganda while Burundi and Rwanda joined in 2007. Its objectives are to

deepen cooperation among member states in political, economic and social fields – including the establishment of a customs union (2005), common market (July 2010), monetary union and, ultimately, a political federation of East African States (see Figure 3.4). Burundi and Rwanda joined the customs union in 2009. The EAC has a population of about 133 million, a land area of 1.8 million square kilometres and a GDP of $99 billion as of 2014, with Kenya, the largest economy, accounting for approximately 40 per cent of that.

The EAC is, currently, in the fourth Development Strategy phase (2011–2016) with a focus on the deepening of the integration process. The immediate and key objective of the new phase is the establishment of the East African Monetary Union (EAMU). The common market protocol, which entered into force in July 2010, is intended to be fully implemented by December 2015. By that time the EAC is expected to have achieved the '4 freedoms' – free movement of people, goods, services and capital within the common market.

It is also important to note that the EAC is evolving in and of itself in terms of intra-REC integration but also, in pursuance of a parallel mandate, in adapting to meet the inter-REC integration necessitated by the Tripartite Free Trade Area integration of SADC, COMESA and EAC.

Learnings from EAC: how is the EAC facilitating cross-border trade and investment?

As mentioned earlier, the EAC is the better performing of the African RECs. However, closer examination reveals that integration is neither consistent nor wholesale. Rather, integration in the EAC manifests in three of the following ways:

- at an EAC level with *all* members;
- at an EAC level with only *some* members, known as the 'Coalition of the Willing';
- *individual country efforts* that, however, augur well for the EAC and are often misconstrued to be efforts at an EAC level.

The EAC is characterised by a fissure in its membership with a feet-dragging element and a fast-tracking one commonly referred to as the 'Coalition of the Willing' but officially known as the 'Tripartite Initiative for Fast Tracking the East African Integration'.[46] Accordingly, EAC progress regarding a number of regional initiatives to promote regional trade and investment can be drawn along the lines of these two groupings.

January 2005 – launched | **July 2010 – launched** | Once Customs Union and Common Market Protocols are fully implemented | **Launch date TBD**

Customs Union

- Its main aim is to increase trade within the region, specifically by harmonising the administration of customs. This includes the removal of internal tariffs and the adoption of a Common External Tariff (CET)
- Current applied CET on imports is 25% for finished goods, 10% for semi-finished goods and 0% for raw materials

5 years

Achievements

- Increased intra-EAC trade (according to the EAC Secretariat, intra-EAC trade more than doubled from US$1 617,1 million in 2006 to US$3 800.7 million in 2010)

Challenges

- Agreement on country specific lists of exclusions to the Common External Tariff (CET)
- Membership of Partner States in other regional economic communities (RECs) that have different CET rates

Common Market

- The common market protocol was adopted in July 2010. Its main objective is the free movement of goods and services, persons and labour, and capital
- One of the protocol's main goals is the elimination of non-tariff barriers (NTBs)

5 years

Achievements

- 55 non-tariff barriers (NTBs) resolved in 2013 compared to 36 in 2012. 10 NTBs resolved in the first five months of 2014
- East Africa Payment System (EAPS) launched by EAC central banks in 2013. It will enable real time money transfers without currency conversion costs
- Real time gross settlement (RTGS) systems linked by regional commercial banks in 2012. As a result, cheque clearance times have reduced from 22 days to just one day
- In 2013 the East African Securities Regulatory Authorities group (the EAC's capital markets regulators) launched a four year strategic plan aimed at harmonising a capital markets regulatory and legal framework within the EAC

Challenges

- Several NTBs still remain unresolved to date
- Member states still retain different classification for work permits: Tanzania has 13 sub-classes; Uganda and Kenya have 9; while Rwanda and Burundi have 2
- Remains unlikely that all the goals of the protocol will be achieved by 2015, the initial target for full implementation

Monetary Union

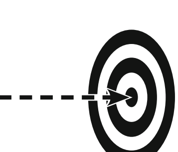
- Monetary Union Protocol signed on 30 November 2013
- Member states first have to fully implement the Customs Union and the Common Market Protocol
- Harmonisation and co-ordination of fiscal, monetary, and exchange control policies required beforehand
- Standards that must be attained and maintained for 3 years before union is established: public debt ceiling of 50% of GDP; Forex reserve cover of 4½ months; fiscal deficit ceiling of 6% of GDP; core inflation ceiling of 5%; and tax to GDP ratio of 25%

10 years

Political Federation

- A political federation is the ultimate objective of the EAC integration process
- Most likely to be the most contentious and drawn out. All five partner states have expressed the desire to see some form of a political federation established even though consensus on the form is yet to be achieved
- Consultations underway to design the format of the federation and draw up an implementation plan
- Proposed plan set to be presented for approval at the EAC Heads of States Summit in November 2014

TBC



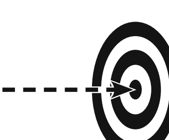


Figure 3.4 Overview of the EAC integration process: key phases and milestones

Source: Africa Practice (2014), "East Africa Integration: State of Play," Africa Practice InDepth.

Integration efforts at an EAC level with all members

The EAC's approach to integration can be said to be consistent with the tenets of the new developmental regionalism approach that lays emphasis on addressing supply side constraints and not just 'fixing borders'. For example, the current EAC development strategy, covering the period 2011/12 to 2015/16, has an explicit focus on deepening and accelerating integration and particularly prioritises the expansion of productive capacities to facilitate product/service diversification and infrastructure network development for enhanced connectivity within the region. Examples of these ongoing efforts include an East African transport strategy and regional road sector development programme; an East African railways master plan; and the ongoing development of a regional power master plan and interconnection code, in collaboration with the Eastern Africa Power Pool. The EAC has also been successful in securing funding from investors such as the African Development Bank for the operationalisation of these cross-border infrastructural programmes.

Regarding capital markets, the region does not have a common stock exchange although plans are under way for the integration of the stock markets in Kenya, Uganda, Tanzania and Rwanda. Burundi does not have a stock exchange. The East African Securities Exchange Association (EASEA) is working with the Securities Exchanges of each member country to achieve integration. In 2012, the combined capitalisation of the four exchanges was estimated at US$31 billion, making it the continent's third largest bourse if the EAC stock exchanges were combined, after Western African Regional Stock Market (BRVM) and the Central African Stock Exchange (BVMAC).

Integration efforts commenced in 2010 with the East African Community Monetary Policy Committee, which includes the EAC Central Banks commencing work on the interlinking of the EAC payment systems in order to facilitate trading, clearing and settlement infrastructures. The East African Common Market Protocol (EACMP) was signed and ratified on 1 July 2010. Furthermore, the East African Securities Regulatory Authorities (EASRA), which is the regional umbrella body for capital markets regulators, is drafting legislation that will allow companies in the four countries to float bonds within the region. Harmonisation of legal frameworks will mean that a single information memorandum will be required to comply with the laws in each market. Also, an initial public offer of securities will also use a single set of disclosure standards. It is anticipated that these changes will considerably ease and raise levels of cross-border trading by investors.

While the number of African stock markets has increased from 5 in 1960 to 29 in 2014,[47] they remain highly fragmented, small, illiquid and technologically weak, this severely affecting their informational efficiency. The total value of African stocks outside of South Africa was only 0.94 per cent of world stock market capitalisation, and 2.14 per cent of all emerging markets stocks at the end of 2011.[48]

It is further contended that African stock markets are also small compared with the size of their own economies.[49] For example, market capitalisation of the Mozambique stock exchange is only 4.7 per cent of nominal GDP, whilst Nigeria, Uganda and Tunisia's capitalisations are between 31 and 63 per cent.[50] This compares unfavourably to the UK's 145.6 per cent and the USA's 122.8 per cent and even to emerging economies with Malaysia at 183.7 per cent and India at 172.5 per cent. The case for the integration of African stock markets is, therefore, self-evident with a number of benefits cited which include increased visibility due to scale;[51] increased liquidity and cheaper cost of capital resulting in the expansion for trading volumes;[52] and finally, greater financial deepening.[53]

The East Africa Exchange (EAX), established by Heirs Holdings in 2013, heralds progress towards a common market. Launched in 2013, the commodity exchange 'has the capacity to facilitate cross-border trading of commodities within the EAC, providing a central marketplace, connecting buyers and sellers throughout the region', according to Dr. Frazer, the Chairman of the Board.[54] It will link smallholder farmers to agricultural and financial markets, to secure competitive prices for their products, and to facilitate access to financial opportunities. EAX's goal is to facilitate trade across all five East African Community member states.[55]

Also, the establishment of the East African Cross-Border Payment System (EAPS) in late 2013 represents yet another concrete move towards the integration of money and capital markets.[56] The EAPS is an on-the-spot payment system that links the Real Time Gross Settlement System (RTGS) in the three central banks – Kenya, Uganda and Tanzania – and allows for the movement of cash between different banks and branches in the region in place of cheques. Rwanda and Burundi are expected to join over time. The EAPS is a multi-currency system in which payments are effected using any of the currencies of the EAC partner states vastly reducing costs of transactions in the form of commissions. It is worthy and important to note that beneficiaries are diverse and include large investors but also SMEs and citizens who are typically on the periphery and excluded in the design of large cross-border systems. Citizens who have been using informal methods – with high transaction costs – are now able to make payments, including school and medical fees for relatives, across national borders using the EAPS. It can, therefore, be said that integration is being driven at a level that impacts on communities in a manner that is relevant to its people.

Integration efforts by the Coalition of the Willing

Members of the Coalition of the Willing are driving infrastructure projects, accelerating movement of peoples and reducing costs of ICT. Regarding infrastructure, the three countries (Kenya, Rwanda and Uganda) signed a tripartite agreement for the development and operation of standard gauge railway (SGR) that is to run from Mombasa through Nairobi to Kampala and

Kigali, and construction commenced in October 2014. The standard gauge signifies progress towards common specification in cross-border infrastructure. Non-alignment in terms of standards and specifications is a typical non-tariff barrier on the continent. Regarding labour mobility, Rwanda abolished work permit fees for all EAC citizens with Kenya following suit and Uganda abolishing work permit fees for Kenyans and Rwandans.[57] For multinationals – whether foreign of African – with offices in the three countries, this development is a welcome relief. In terms of movement of people, citizens of Kenya, Rwanda and Uganda, as of February 2014, have been able to travel anywhere in the three countries using only their national identity cards instead of passports. Moreover, the three countries launched an East Africa six-month visa in June 2014 allowing foreign residents and expatriates residing in the three countries to travel freely within the three countries. Finally, the establishment of a single tourist visa for the three countries set a clear and positive tone for movement within the region. Finally, in terms of connectivity, the Coalition of the Willing established a single area mobile network that was launched in October 2014. This eliminates roaming charges on cross-border calls for mobile phone users in Kenya, Uganda and Rwanda.[58] The net impact is expected to be greater connectivity and a reduction in the cost of doing business.

Individual country efforts that have benefitted EAC

Evidence shows that 'economies that have efficient business registration also tend to have a higher entry rate by new firms and greater business density'. In terms of the continual improvement of the business environment, the EAC performs well. However, it is important to note here that the EAC has been the beneficiary of progressive individual country efforts rather than a concerted effort at the EAC level. To start a business in the EAC requires only 8 procedures and 20 days on average. The EAC's average ranking on the ease of starting a business is 84, higher than that of other regional blocs in Africa – 104 for the SADC, 110 for the COMESA and 127 for the ECOWAS. Of the 74 institutional or regulatory reforms implemented by EAC economies in the past 8 years, the largest numbers were in the areas of starting a business, registering property and dealing with construction permits. These efforts have led to clear results. In 2005, starting a business in the EAC took 29 days on average; today it takes 20. But the time needed to register property had the biggest reduction, dropping from an average of 140 days in 2005 to 56 days as of today. As average figures, they mask the accomplishment of high performers such as Rwanda. For example, Uganda ranked 120, Kenya 121, Tanzania 134 and Burundi, 159 while Rwanda, ranked 52 globally among 181 countries in 2013, was named a top reformer by the World Bank and second best reformer globally. It earned the distinction by enacting sound business policies and removing bottlenecks to establish small to medium-sized firms. In terms of doing business, Rwanda has

reduced the number of procedures from 8 to 2, and the length of time it takes to register a business from 14 days to 24 hours. It could be said that Rwanda has compensated for its small market size by making itself attractive as a destination to do business in with leadership compensating the lack of inherent comparative advantages.

The EAC economies have leveraged technology to underpin business reforms. Rwanda has an integrated system for company registration while Kenya offers online procedures for tax and value added tax (VAT) registration. Kenya also introduced online name search, reducing the time and cost to start a business. Uganda has an online system allowing entrepreneurs to apply for corporate tax and value added tax identification numbers at the same time. Tanzania has consolidated and digitised registered company names, allowing the company name search to be done online and speeding up name clearances.

The MeTL Group: an industrial conglomerate operating in the EAC

Mohammed Enterprises Tanzania (MeTL Group) employs 24,000 people and is Tanzania's largest private sector employer. Its revenues are US$1.3 billion, contributing 3.5 per cent to Tanzania's GDP, with a 5-year plan to grow to US$5 billion. MeTL is diversified and is into a diverse range of activities, including grain-milling, rice, the refining of edible oils, sisal farms, tea estates, cashew fields, logistics and warehousing, financial services, distribution, real estate, transport and logistics, energy and petroleum. From an initial capacity of 60 tons, which then grew to 600 tons, MeTL now refines 2,250 tons of edible oils per year following an acquisition that expanded its capacity in 2013. Regarding textiles, MeTL is Sub-Saharan Africa's largest entity operating along the entire value chain from ginning to spinning, weaving, knitting, processing and printing. Of the 24,000 jobs created by the group, 8,000 are in textiles. The group also exports 50 of its brands taking advantage of the fact that Tanzania borders with eight countries, thus leveraging the country's 'land-linked' position.[59] MeTL is now present in 11 African countries and is, arguably, the largest private company in East and Central Africa.

While the group – as a diversified conglomerate – appears to be involved in seemingly disparate activities, there is a common thread. Speaking to Mr Mohammed Dewji, the CEO of MeTL Group, it is clear that the common thread across the businesses is the enabling EAC policy frameworks and specifically:

- harmonisation of external tariffs across EAC countries;
- harmonisation of internal tariff systems within EAC country states, themselves; and
- rules of origin.

The EAC trading bloc, under the Common External Tariff system, is designed to keep out foreign competition whilst at the same time promoting trade within the EAC countries. To put it otherwise, it is protectionist vis-à-vis outsiders but protective of insiders within the community. This has helped ensure that the countries gain their competitive strength and are strong as the building blocks of the EAC. According to Mohammed Dewji, at a time when Africa is particularly vulnerable to cheap imports from China, certain industries in East Africa are cushioned given the tariff regime. He confidently asserts, 'They (the Chinese) cannot compete with me in my market'. He explains it thus: in a bid to promote local value-addition and beneficiation, the Tanzanian government has recognised the job creation potential of the textiles sector and has accorded the industry a tax relief status for local producers whilst imposing 25 per cent import tariffs on finished goods and 18 per cent VAT for those importing into the country. Moreover, Tanzania grows cotton and is the third largest grower on the continent whereas China has cotton but insufficient to meet demand and has to import to address the supply gap. Textiles accounts for 5 per cent of Tanzania manufacturing value-add (MVP) with it being a significant exporter of textiles to other EAC countries.[60]

The MeTL Group has leveraged the rules of origin to its advantage – a regional integration policy instrument that is normally fraught with complications. Shoprite, the South African retailer that is now Africa's largest retailer, prefers not to exercise its rules of origin entitlement within the SADC region opting to pay full tariffs because it deems the process of administering rules of origin documentation to be too cumbersome.[61]

The determination of the eligibility of products to EAC origin and the granting of Community Tariffs to goods originating in the Partner States are important processes in the implementation of the EAC trade regime.[62] The MeTL Group has a different experience of rules of origin and the business model has been structured to leverage the benefits of rules of origin. Thus, MeTL imports wheat, not flour, and crude palm oil is imported from Malaysia and Indonesia which is then processed in Tanzania. But to then export the refined oil to Uganda, for example, would mean Uganda would have to pay tariffs. However, for sunflower oil which is grown in Tanzania, the group can process and export it to Uganda at 0 per cent tariff. Over the years, the EAC member states have aligned their tariffs in accordance with and support of the rules of origin regime. Tanzania, for example, migrated towards it over a period of five years, going from 20 per cent to 15 per cent to 10 per cent, 5 per cent and then 0 per cent. Mohammed Dewji explains that different countries have different comparative advantages and this allows the different EAC countries to beneficiate locally while benefitting the EAC intra-trading of goods in a complementary manner. The EAC's approach is consistent with a key tenet of regional integration: that 'a continental customs union requires that all Africa countries have a single commercial

Table 3.5 Progress towards elimination of tariffs and equivalent measures by EAC partner states (Based on 2008–2013 Data; all values in per cent)

	Per cent	**Rwanda**	**Burundi**	**Kenya**	**Uganda**	**Tanzania**
Compliance with tariff schedule	20	20	20	20	20	20
Adoption of rules of origin requirements	20	20	20	20	20	20
Use of charges of equivalent effect to tariffs	30	30	27	24	21	18
Recognition of certificates of origin	16	14.4	16	14.4	11.2	8
Compliance with EAC Council Recommendation about issuance of certificate of origin by customs authorities	7	7	7	7	0	0
Compliance with Custom Union Protocol Annex III about false documentation for certificates of origin	7	0	0	0	0	0
	100	**91.4**	**90**	**85.4**	**72.2**	**66**

Source: K'Ombudo, A.O., East Africa Common Market Scorecard 2014: Tracking EAC Compliance in the Movement of Capital, Services and Goods. The World Bank, International Finance Corporation and East African Secretariat.

(tariff) policy vis-à-vis the rest of the world while trade within Africa is totally free, respecting the continental rules of origin'. The EAC has made formidable progress on this, at least, relative to other African RECs with regards to the implementation of a customs union.

Airbus: a case of practical regional integration

Moyo[63] is a proponent of a different 'architecture' for economic integration – a more pragmatic approach to regional integration.[64] Airbus's dispersed and integrative manufacturing of aircrafts is illustrative of this approach. In the mid-1960s, tentative negotiations commenced regarding a European collaborative approach in response to European manufacturers' dwindling market share and competitiveness in the aircraft sector on the global stage. France, Germany and the United Kingdom entered into an agreement covering both

component production and aircraft assembly. Spain is part of this agreement and in the specific context of the production of the Airbus 380. Under this partnership, the UK specialises in wing manufacturing; Spain focuses on tail, fin and pitch elevator; France and Germany share fuselage construction while final assembly takes place in Toulouse, France. This multi-territory production template distributes the benefits across various countries and eventually leads to the emergence of captive markets.

There are important lessons to be extracted from the Airbus example for African regional integration. Firstly, '[African] countries with more capacity need to be prepared to lead from behind and to lead by giving away certain benefits in order to create the cohesion that is necessary. Thus, there is a 'disproportionate responsibility on large economies such as Nigeria and South Africa to drive integration'.[65] Secondly, the Airbus's distributed-benefits model is seen as the outcome of a political, rather than an economic, decision-making process. By accepting this political dimension, it is also easier to build in the 'self-interest' that is necessary for politicians and civil servants to embrace integration by stating 'right up-front, how the benefits flowing from such cooperation are going to be distributed and how they could justify such participation to the electorate'. The Airbus architecture tends to understand that each country would need to account to its citizens in terms of why it should be part of the club. Finally, to operationalise such a model, political will, on its own, is not sufficient. There is also a need for a secure environment and the harmonisation of business legislation and regulations. The question of visas to facilitate skills movement must be resolved in a pragmatic manner, in both the short and long terms and should be issued online as a matter of course.[66]

To summarise, the key lessons from the Airbus case study of relevance for African regional integration are as follows:[67]

- It is easier to commit to economic integration if the dividends to each participant are clear right up front.
- Even with global products, take a commanding position on the expanded domestic front first.
- Create mutual vulnerability and win-win in which the success of one is the success of all in the club.
- Go global on the back of technical and strategic partners' networks.
- Be clear about the 'political economy' nature of integration.
- The 'bigger' participants must be prepared to be champions to the cause.

Conclusions and recommendations

Based on the aforementioned strategic context and state of play of regional integration on the African continent, a number of conclusions are drawn and recommendations framed.

Conclusions

- In the context of globalisation, Africa's rising and the competitiveness of countries such as China, there is greater urgency to expedite the regional integration agenda. These dynamics render the issue of integration inherently more complex and Africa finds itself in a somewhat disconcerting and unique position where it, at once, needs to raise intra-REC trade whilst simultaneously confronting external competition that is cost competitive.
- In light of evidence suggesting slow progress towards the attainment of the African Economic Community, it would appear there is a lack of urgency or political will on the part of regional bodies in addressing regional trade issues. This was similarly observed by Peters-Berries,[68] who noted that 'the political will for regional integration has not been adequately translated into action'. Despite all the pronouncements, there still appears to be a lack of appreciation of how regional trade can truly lead to the economic transformation of African countries. Consequently, effective integration needs to be repositioned as a win-win for both the private sector and governments, themselves, in helping the latter deliver on their mandates to their people.
- The African private sector is conspicuous by its absence in the regional integration discourse. In attempting to raise intra-REC trade levels, regional bodies need to work with the private sector in understanding their concerns and in co-crafting the solutions. According to the African Development Bank,[69] 'government and the national/regional Chambers of Commerce and Business Councils are already interacting in the region, but the contact has to extend beyond information sharing to involvement in policy making and program implementation process' and infrastructure building via public-private-partnership arrangements (PPPs). The East African Exchange (EAX), a private sector initiative, is a fitting example of how the private sector can play a lead and pivotal role in driving the aspirations of a common market, in a manner that is mutually beneficial to the private and public sectors.

Recommendations

- Removal of trade and non-trade barriers is a necessary but not sufficient condition for effective regional integration. A broader integration paradigm that addresses supply-side constraints is needed. To that end, RECs need to identify the infrastructure gaps that hinder effective trade across borders and attract investors, *as regional bodies*, to fill those gaps.
- Soft issues need to be actively managed alongside policy issues. Citizenry awareness and education are vital to ensure buy-in into the regional trade

vision and to minimise the tensions between ceding sovereignty and raising the greater regional common good.

- There needs to be a mainstreaming of regional trade mandates into national policies. The supra-national and national realms and agendas will have to be managed jointly and in parallel and should be mutually reinforcing. While regional communities can provide the framework for reform, responsibility for implementation lies with each member country.
- Leadership, leadership, leadership! Leadership compensates for natural disadvantages, be they locational or a lack of resources. Rwanda has defied its relatively small market size within the EAC by making itself attractive as a destination to do business in. It is the largest attractor of intra-EAC investments having positioned itself proactively to seize the regional trading opportunity.
- The adage 'what cannot be measured, cannot be managed' is particularly apt in the context of the EAC. The EAC case highlighted the importance of assessing progress, as illustrated by two initiatives. The first is the EAC Time-Bound Programme for Elimination of Identified Non-Tariff Barriers (NTBs), where the heads of delegation of each country report detected NTBs either in its own country or imposed by another member state to the EAC Secretariat, and then all five EAC member states agree on characterising such measures as NTBs. The programme was formally adopted in 2009 and since then has been regularly implemented on a yearly and quarterly basis since August 2011.[70] The second initiative is the East Africa Scorecard launched in 2014 to define a baseline regarding the status of integration vis-à-vis capital goods and services and to measure progress, going forward. Paradoxically, while the EAC is lauded as a model REC, vis-à-vis other African RECs, an assessment of the EAC's progress against its own ambitions found the it wanting in a number of respects. But the identification of these gaps is entirely in keeping with the spirit in which the Scorecard was established. According to Dr. Sezibera, the EAC Secretary-General, the EAC plans to use the scorecard to provide benchmarks to guide faster implementation of the common market and to 'foster peer learning and facilitate the adoption of best practices in the region. This will strengthen the regional market, grow the private sector and deliver benefits to consumers'.[71] Stemming out of this, a key recommendation to African RECs is the need for measurement of progress towards integration and even more importantly, the responsiveness to the outcomes of the measurement system.
- Both the EAC and Airbus experiences have highlighted that the 'bigger' participants'[72] must be prepared to be champions to the cause. 'Those 54 countries are not going to be in phase with each other every step of the way – it's not possible. So those countries that "get it" need to be prepared to move on ahead of the laggards, while creating a framework

that says: “When you are ready, you can join. But we are not going to wait for you”’.[73] The EAC’s Coalition of the Willing has demonstrated this by demonstrating urgency and setting the cadence and tone for economic integration but perhaps – controversially – at the expense of the broader political alignment of the EAC.

Notes

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4
Transport Infrastructure

Mark Pearson

Much has been written about Africa's lack of transport infrastructure and the detrimental effect poor transport infrastructure has on economic development. The Programme for Infrastructure Development in Africa (PIDA) Study Synthesis[1] shows that infrastructure plays a key role in economic growth and poverty reduction and that, conversely, the lack of infrastructure adversely affects productivity and raises production and transaction costs. This, in turn, hinders growth by reducing the competitiveness of businesses and the ability of governments to pursue economic and social development policies. According to the PIDA Study Synthesis, 'Deficient infrastructure in today's Africa has been found to sap growth by as much as 2 per cent a year (Calderón 2008)'.

The Africa Infrastructure Country Diagnostic (AICD)[2] estimated in 2009 that it would cost US$93 billion a year to raise Africa's infrastructure endowment to a reasonable level over the following decade, with the split in expenditure being two to one between investment and maintenance. The AICD report calculated that African countries already spend US$45 billion a year on infrastructure and that efficiency gains could raise an additional US$17 billion from within the existing envelope, leaving an annual funding gap of US$31 billion.

These headline figures highlight the daunting task African countries face if they are to take infrastructure to levels that will allow African-based firms and businesses to become competitive both within Africa and globally. In a lecture[3] in September 2014 at the London School of Economics, Donald Kaberuka, the President of the African Development Bank, said that African countries are now able to spend only about 5 per cent of their GDP on infrastructure, a figure which must rise to nearer 15 per cent. Even this figure of 15 per cent will not be enough for some countries. For example, the AICD report estimates that the so-called Fragile States would need to spend the equivalent of about 70 per cent of their GDP on infrastructure to close the perceived infrastructure gap and, without external support, this is obviously not a feasible proposition.

African countries do receive a considerable amount of external support in terms of infrastructure development so the continent is not facing this challenge totally alone. In 2010 total external commitments for African infrastructure were US$50.7 billion, but this represented a significant increase from the previous year of US$38.4 billion.[4] Investments in African infrastructure slowed down during the economic crisis of 2008, especially investments from the private sector, but since 2008 investments from the Infrastructure Consortium for Africa countries and from China have increased significantly.[5]

In addition, in recent years, a number of emerging economies have begun to play a more prominent role in the finance of infrastructure in Sub-Saharan Africa. Their combined resource flows are now comparable in scale to traditional official development assistance (ODA) from OECD countries or to capital from private investors. These non-OECD financiers include China, India and the Gulf states, with China being by far the largest player.

The AICD report also estimated, in 2009, that Africa's transport infrastructure required an average capital expenditure of US$10.7 billion per year for the following 10 years, which, at that time, was equivalent to 1.7 per cent of continental GDP, and an average of US$9.6 billion per year for the next 10 years in operating costs.

African countries are among the least competitive in the world, and infrastructure, combined with poor logistics and poorly implemented trade facilitation tools, is one of the main reasons for this lack of competitiveness. Short-term fixes can be made in other sectors where Africa faces economic and social challenges, such as importing skills and expertise, where these are lacking, and until African countries can build up their own skills bases, but the infrastructure deficit can only be addressed in the long term. Of equal importance in the infrastructure sector is the absolute need for infrastructural upgrading to be accompanied by a set of policy reforms and implementation modalities that will allow a more efficient service delivery using the improved infrastructure.

Efforts made to address Africa's infrastructure deficit

The shift in focus by the Organisation of African Unity (OAU) from political liberation to economic development in the last quarter of the twentieth century led to the design of a number of pan-African development approaches, such as the Lagos Plan of Action (1980), the Abuja Treaty (1991), and, of particular relevance to transport infrastructure, the adoption of the Trans-African Highway (TAH) concept by the OAU, with the TAH first proposed by the United Nations Economic Commission for Africa (UNECA) in 1971.

The TAH consists of nine main road corridors with a total length 59,100 km. As originally formulated, the proposal was to construct a network of all-weather roads of good quality connecting Africa's capital cities as

directly as possible. This was to contribute to the political, economic and social integration and cohesion of Africa and to ensure road transport facilities between important areas of production and consumption.[6]

The nine highways[7] that made up the TAH programme were: Cairo-Dakar, Algiers-Lagos, Tripoli-Windhoek-Cape Town, Cairo-Gaborone-Cape Town, Dakar-Ndjamena, Ndjamena-Djibouti, Dakar-Lagos, Lagos-Mombasa, and Beira-Lobito.

Implementation of the Trans-African Highway project has not gone to plan. According to UNECA's most recent assessment in 2011,[8] 21 per cent of the TAH is still unconstructed, and in Central Africa only 3,891 km of a planned 11,246 km of roads have been paved, meaning that, after more than four decades, 65 per cent of the planned roads remain unconstructed in that region. Only one of the nine original roads, a 4,400-km stretch across the Sahel, connecting Dakar in Senegal to Ndjamena in Chad, is completed. All eight of the other routes are missing significant links.

The African Development Bank's (AfDB) 'Review of the Implementation Status of the Trans-African Highways and the Missing Links: Volume 1: Main Report,' published in 2003, reported that the completion and development of the TAH concept would depend on the following factors, amongst other things:

- determination of a minimum standard for TAH and the gradual harmonising of the axle load and total weight regulations;
- the very high cost of completing the TAH network makes the application of a least cost approach and a careful priority setting (through feasibility studies) a must in the planning for the improvement of existing links in the system, including the completion of missing links; and
- the role of the private sector in the funding of the TAH network needs to be given more attention.

All three of these recommendations are key to the successful development of the road transport sector in Africa. However, none of them have actually been implemented. Standards for construction are not harmonised, meaning that road quality, even at construction, varies widely. As axle loads and vehicle dimensions have also not been harmonised, it means that cross-border traffic is disrupted and causes time delays, which pushes up transport costs. For example, most countries in Eastern and Southern Africa have a gross vehicle mass (GVM) limit of 56 tonnes[9] applied to trucks using the road networks, which allows the use of truck and semi-trailer seven-axle combinations (referred to as interlinks in some parts of Africa) with an overall length of 22 metres. The tare weight of an interlink is 24 tonnes so the allowed cargo weight, before a vehicle is considered to be carrying an abnormal load, is 32 tonnes. If an interlink crosses a border into a country with a different set of vehicle specifications (such as a GVM of 48 tonnes or

a vehicle length restriction of less than 22 metres or a maximum allowable number of six axles on a vehicle before an abnormal load license is required), then the logistics of the whole journey are affected. If one country or one bridge, or river crossing by pontoon, has a GVM of 48 tonnes on a transport corridor that is otherwise regulated with a GVM of 56 tonnes, then the entire journey would need to be completed with a load and vehicle with a GVM of 48 tonnes and a payload of 24 tonnes instead of 32 tonnes. This represents a payload reduction of 25 per cent which obviously means higher transport costs per kilometre for the importer or exporter, which may make the import or export sub-economic.

The TAH has at least been a major push to develop Africa's continental roads. There have not been similar initiatives in other modes of transport in Africa. The railway sector, in particular, has seen a catastrophic decline in quality of service delivery. Railway infrastructure and public-sector owned and managed railway companies were allowed to deteriorate almost, in some instances, to a point of no return. The reliability of most of Africa's national railway networks, with the exception of South Africa, is now extremely poor; accident and failure rates are high, operating costs are also high, and, in general, the volumes of goods transported by rail are so low as to be uneconomical and most, if not all, national railways are financially loss-making. However, recently, some countries have started to make concerted efforts to improve their national railway systems. This return to recognising the potential of railways in an African context owes much to the fact that the road sector can no longer cope with the volumes of cargo that are being transported. Putting so much cargo onto Africa's roads has resulted in high wear and tear on the road network, associated high costs of road rehabilitation and maintenance and congestion at border crossings. All of these factors contribute to delays in freight movement and escalating costs of imports and exports. In addition, there are environmental, safety and economic benefits to moving certain goods, such as fuel, acid, coal, minerals, cement and grain, in bulk by rail rather than by road.

In revitalising their railway systems, some African countries are laying new standard-gauge rail track, sometimes as dual track and electrified, and procuring new rolling stock and locomotives. However, if railways are to become viable once again, much more than revamping infrastructure needs to happen. The reasons for the decline of Africa's railways are many and include a lack of investment in the railways and poor management, coupled with the rise in importance of the road sector which has received high levels of public sector investment and subsidies.[10] Of equal importance has been the deregulation of the road sector compared to the rail sector, and this, coupled with advances in technology, has allowed trucks to carry higher payloads at lower costs. Therefore, if railways are to be a major component in an improved transport and logistics system for Africa, then improved infrastructure will need to be accompanied with policy reforms, revised

regulations, and, most importantly, improved management. It is not enough to construct a standard-gauge, electrified, high-speed rail track and not put in regulations and processes to allow service providers to make efficient and effective use of this state-of-the-art infrastructure.

African ports and harbours have been modernised, developed and deepened and capacities have been expanded by national governments and through concessioning, but this has not been done in any continentally sequenced or coordinated manner, and these infrastructure upgrades have not been integrated with other modes of surface transport or by taking into account the continent's other ports and their capabilities. In addition, the introduction of larger and larger cargo vessels have transformed the economics of maritime transport. The Maersk Triple-E class of container ship are 400 m long and 59 m wide and have a draft of 14.5 m, making them too large to use the Panama Canal but not too large for the Suez Canal. More important, however, is the fuel efficiency of this class of ship, which is the lowest per TEU of any ship.[11] The ship is powered by two 32 MW (43,000 hp), ultra-long, two-stroke, diesel engines driving two propellers at a design speed of 19 knots (35 km/h; 22 mph) for 'slow-steaming' which lowers fuel consumption by about 37 per cent and carbon dioxide emissions per TEU by about 50 per cent.[12] The Maersk Triple-E class of ships, when fully introduced, will predominantly be used to service routes between Asia and Europe. Owing to the size and draft of the Triple-E class of ships (and because of the size, special ship-to-shore cranes are required for loading and off-loading), the number of ports capable of being able to accept fully laden Triple-E class ships, carrying 18,000 TEUs, is very limited. There are, currently, no African ports that can accommodate a fully laden Triple-E class of ship, with the largest ports in Africa, these being in South Africa, Morocco and Egypt, being limited to handling, at most, post-Panamax ships that have a capacity of between 5,000 and 10,000 TEUs.[13] If, in future, African traders are to benefit from the efficiencies of a Triple-E class ship, then cargo from and to Europe and Asia will need to be landed at a port that can accommodate a Triple-E class ship that is on, or close to, the main Europe-Asia shipping lanes. This means that the continent's policy makers should agree on one or two 'hub' ports for Africa that could be developed to take the largest container vessels (or agree to use a port outside of Africa) and a system of feeder ports that will deliver containers to the hub port(s) so that cargo can be loaded onto larger ships for delivery to Asia and Europe and the reverse for imports.

Airports on the continent have been developed at a fast pace and many of Africa's international airports have improved their facilities so that they are able to take the world's largest passenger aeroplanes, such as the Airbus A380. However, the fact remains that air transport would have been considerably more efficient and competitive if these improvements in infrastructure had been accompanied with the full implementation of the 1999 Yamoussoukro Declaration by all African governments. The Yamoussoukro

Declaration, concerning the liberalisation of access to air transport markets in Africa, remains the single most important African air transport reform policy initiative.

Enter the New Partnership for Africa's Development (NEPAD), a coming together of two initiatives, South Africa's Thabo Mbeki's Millennium Africa Recovery Plan (MAP) and Senegal's Abdoulaye Wade's Omega Plan, which were merged to create the New African Initiative (NAI). The need for further compromises saw the morphing of the NAI into NEPAD in 2001.

Since its ratification by the African Union in 2002, NEPAD has been promoted widely both within Africa and by Africa's Cooperating Partners and is seen as the mechanism by which support to Africa's development efforts can be best delivered. Thus, the NEPAD process has come to be accepted as the way forward and as the framework for their development efforts not only by African countries and Regional Economic Communities (RECs) but also by Africa's Development Partners.

The component of NEPAD that addresses infrastructure is the Programme for Infrastructure Development in Africa, a continent-wide programme to develop a vision and strategic framework for the development of regional and continental infrastructure. The PIDA initiative is being led by the African Union Commission (AUC), the NEPAD Secretariat and the African Development Bank. One of the strengths of PIDA is that it builds on the past efforts of the Organisation of African Union and the African Union to promote the development of Africa's infrastructure. PIDA is not, therefore, a re-invention of the wheel and merges various existing continental infrastructure initiatives, such as the NEPAD Short Term Action Plan, the NEPAD Medium to Long Term Strategic Framework (MLTSF), and the AU Infrastructure Master Plans initiatives, into one coherent programme for the entire continent. It aims to put in place an adequate, cost-effective and sustainable regional infrastructure base to promote Africa's socio-economic development and integration into the global economy, and this is instantly recognisable as being consistent with the overall aims and objectives of the African Union.

The sectoral focus of PIDA is Energy, Transport, Information and Communication Technologies (ICT) and Trans-boundary Water Resources. Simplistically put, PIDA is a collection of infrastructure projects the AU member states and the regional organisations consider to be priority infrastructure projects and vital for the development of Africa with an investment cost of US$68 billion up to the year 2020. It provides the strategic framework for African stakeholders to build the infrastructure necessary for more integrated networks to boost trade, promote economic growth and create jobs through deeper regional integration and linkages into the global economy. Successful implementation of PIDA is, therefore, intended to enhance Africa's competitiveness within itself and in the global economy, while acting as a catalyst to Africa's economic transformation.

A sub-set of the full list of PIDA projects is the Priority Action Programme (PAP) list of projects which, as the name suggests, are the projects in the PIDA full list that should be developed and implemented as a priority and before the other projects in PIDA.

A database (AID – African Infrastructure Database) for PIDA is being developed to assist in the coordination and implementation of the programme. The Virtual PIDA Information Centre (VPIC) is the central technology mechanism to support monitoring and reporting of regional projects in all RECs. Stakeholders will access the project data and related reports through the front-end interface of VPIC, which then becomes the central information management system for all information related to PIDA projects. With VPIC, the NEPAD Planning and Coordination Agency (NPCA) is able to facilitate sharing of PIDA-PAP information, promote participation in PIDA implementation, enable tracking of progress in PIDA implementation, and promote investment opportunities in PIDA-PAP projects.

VPIC can be accessed via www.au-pida.org. The VIPC software enables the AID database to be interfaced with the COMESA-EAC-SADC regional infrastructure database developed by TradeMark Southern Africa.[14] The VPIC also allows users to browse through, search, filter and view the decomposed projects of the PIDA Priority Action Programme in so-called project fiches, thus giving the users the needed information on each project and its implementation status. VPIC allows the RECs to collect information on PIDA-PAP projects at national and regional levels and to populate AID accordingly, thus making up-to-date PIDA project information accessible in VPIC. At the time of writing, project information in the African Infrastructure database is far from complete but there are a number of programmes supporting the AU member states, the RECs and NEPAD to collect information on priority infrastructure projects so that these projects can be prepared and hence moved towards a stage where they can be financed and implemented.

In 2013–2014, the 51 original PIDA priority infrastructure programmes were decomposed into 433 discrete projects. Detailed project fiches were generated for 83 of these projects and documented in reports. In parallel, the COMESA-EAC-SADC Tripartite has entered just over 600 priority projects into the Tripartite Regional Infrastructure Projects Database (TRIPDA; see www.tripartitegis.org). Since TRIPDA offered a consolidated dataset for four (including IGAD) of the eight RECs, with a combined membership of 26 countries, but not yet including South Sudan or Somalia, it made sense to build AID on the back of TRIPDA.

Recently, efforts have been made to review the pipeline of the 433 projects and the list of 83 for which project fiches were generated. These have been rationalised and cleaned up and the process of mapping the PIDA and TRIPDA projects has started and is well under way.

Not only have there been great strides made in the technical aspects of the Programme for Infrastructure Development for Africa, but there

remains significant political support as well. At their 22nd Ordinary Session of the Assembly of the Union on 31 January 2014, the Heads of State and Government of the African Union agreed on a Common African Position on the post-2015 Development Agenda and, in terms of infrastructure development, also that accelerating Africa's infrastructural development is pivotal to connect African people, countries and economies as well as to help drive social, cultural and economic development. In this regard, the AUC Heads of State and Government stated that they were determined to:

1. develop and maintain reliable, sustainable, environmentally friendly and affordable infrastructure in both rural and urban areas with a focus on land, water and air transport and storage facilities, clean water and sanitation, energy, waste management and information and communication technologies (ICTs);
2. implement infrastructure projects that facilitate intra-African trade and regional and continental integration including, with the assistance of the international community, enhancing research and technological development and the provision of adequate financial resources; and
3. promote the delivery of infrastructure programmes to generate local jobs, strengthen domestic skills and enterprise development, as well as enhance technological capability.

Challenges faced in developing Africa's Infrastructure

From the previous section, it becomes clear that Africa is on the right track in terms of developing the infrastructure it requires for its social and economic development, with the continued global support of NEPAD and PIDA. However, the challenges still faced by Africa in its quest to develop its infrastructure should not be under-estimated. Going back to the aforementioned lecture by Donald Kaberuka given at the London School of Economics,[15] the President of the African Development Bank highlighted three major challenges to be overcome in Africa to ensure sustainability, these being integration, institutions and infrastructure – what he termed as 'the three I's'. As regards infrastructure, President Kaberuka outlined the main ways to close Africa's infrastructure financing gap as being: de-risking (such as broadening and deepening risk mitigation instruments); building a pipeline of bankable projects; developing template standard contracts; and addressing the present apprehensions of non-African Sovereign Wealth Funds, Pension Funds, and so on in investing in Africa's infrastructure.

Financing of infrastructure projects involves considerable risks, which diminish as the project moves from concept stage, to pre-feasibility, to feasibility, to design and finally to implementation stages. The most risk faced by financiers in funding a project is in the early stages of the project. If an infrastructure project has access to even a small amount of grant funds, or

a soft loan, then these funds could be most usefully applied to reduce risk, such as using these grant funds or soft loan to reduce debt repayments or as an equity investment that would give comfort to other investors who are either providing loans or who are also equity investors. De-risking a project in this way can make all the difference as to whether or not the project is 'bankable' or not.

Building a pipeline of bankable projects is currently being addressed through PIDA. However, in a paper entitled 'Unlocking Private Finance for African Infrastructure,'[16] Paul Collier and Colin Meyer make the point that 'the combination of political complexity and the lack of African public sector specialist teams able to prepare projects mean that there is no pipeline of projects ready for funding'. The authors suggest a range of strategic uses of public money in infrastructure financing and conclude that to generate a pipeline of bankable projects there is a need for catalytic finance for specialist teams equipped not just with technicians but with political entrepreneurs who can overcome veto players. There have been attempts to establish these specialist teams as suggested by Collier and Meyer, such as the COMESA-EAC-SADC Tripartite Task Force's Project Preparation and Implementation Unit (PPIU), but these attempts have been half-hearted at best and lack strong political support from the RECs and the REC member countries themselves.

The development banks have been developing templates for standard contracts so, in addressing president Kaberuka's list of ways to close Africa's infrastructure financing gap, this leaves the issue of the present apprehensions of non-African Sovereign Wealth Funds, Pension Funds, and so on to investing in Africa's infrastructure. There are a number of recent initiatives involving the use of public funds to encourage private financiers to invest in African infrastructure projects such as the Africa50 initiative and the Private Infrastructure Development Group (PIDG), a multi-donor organisation led by DFID, the aim of which is to encourage private infrastructure investment in developing countries using a range of facilities and investment vehicles which provide varying types of financial, practical and strategic support in order to realise this objective. Support for infrastructure under the European Union's Eleventh European Development Fund will also use blending and leveraging mechanisms and instruments which should reduce risk and act as a facility which should encourage inclusion of investments from Sovereign Wealth Funds, pension funds and other private sector investment funds into Africa's infrastructure. However, as Collier and Mayer also note, the inability of Africa to finance its infrastructure requirements is not a capacity constraint but an institutional and organisational one and, as such, needs an imaginative approach which goes beyond what has been attempted to date.

There are also other practical constraints that need to be addressed if Africa is to develop its transport infrastructure to the levels required to support sustainable economic development. One major issue is how African policy

makers prioritise infrastructure projects, and here it is suggested that a paradigm shift in thinking about how projects are designed and prioritised is required.

There are a number of ways in which infrastructure projects can be prioritised, including using political, geographical, financial, economic and social criteria. The reality is that infrastructure projects, at least in Africa, are selected on the basis of some or all of these criteria in combination but, if the project is to stand any chance of being financed (meaning that it has to be considered by financiers to be bankable[17]), then it must at least be seen to be economically, if not financially, viable. The main concerns about the systems used in prioritising infrastructure projects in Africa are that they are backward-looking (as opposed to forward-looking) and the projects themselves are usually evaluated in isolation to other projects and other factors that will affect the projects viability. For example, it is possible to evaluate the feasibility of a bridge across a river independently from the railway the bridge is a part of or the port the railway services, but this evaluation of a project out of context will lead to an unrealistic prioritisation of regional projects. In the transport sector it is probably sensible to prioritise transport/transit corridors and then the individual projects on the corridors that are needed to get the corridor to an efficient corridor which, if managed efficiently, will reduce transport costs and make African producers more competitive. But this is not how transport infrastructure in Africa is prioritised.

The PIDA-Priority Action Programme was compiled through a consultative process where NEPAD asked the RECs to obtain priority projects from their member states that were considered to be at least economically (if not financially) viable and which could be considered to be regional[18] (rather than purely national) in nature. There are a number of constraints in using this project selection methodology.

The first constraint is derived from the fact that transport infrastructure project planning is done on the basis of what was economically relevant in the past and not planning transport infrastructure for the future.

According to various World Bank and African Development Bank publications, and as quoted in the Agence Française de Développement (AFD) and World Bank joint publication entitled 'Youth Employment in Sub-Saharan Africa,' published in January 2014, Sub-Saharan Africa has just experienced a decade of unprecedented economic growth, with the GDP growing at a rate of 4.5 per cent a year on average between 2000 and 2012, compared to around 2 per cent for the previous 20 years. In 2012, the region's GDP growth was estimated at 4.7 per cent and at 5.8 per cent if South Africa was excluded. About one-quarter of countries in the region grew at 7 per cent or more, and several African countries are among the fastest growing in the world and medium-term growth prospects remain strong. In just over a decade, Africa has graduated from being the *Economist* magazine's 'Hopeless Continent' (May 2000) to a continent with

a bright future ('Africa Rising'; December 2011). These impressive economic growth figures are based on a strongly performing global economy but a global economy in which Africa is largely not participating. Economic growth which is reliant on a demand for commodities is neither sustainable nor inclusive. It is not sustainable as it is dependent on demand and relatively high prices in markets that are not controlled by the supplier, and it is not inclusive because exports of largely unprocessed commodities are not job-creating and so a small elite (which is not necessarily based in the African country that is the supplier) benefits.

Already, Africa is the second-largest and second most populous continent on earth with an estimated population in 2013 of 1.1 billion people. The Population Reference Bureau (www.prb.org) estimates that Africa's population doubled between 1982 and 2009 and is expected to almost double again to a total of about 2.4 billion people by 2050 and to quadruple in 90 years, by the turn of the twenty-first century. The boom in Africa's population will be in Sub-Sahara. Nigeria, a country the size of Texas, is projected to have a population of about 1 billion by the turn of the century and, as China's population shrinks and India's population plateaus, Nigeria is projected to be the most populous country on earth. Tanzania, 13 years ago, had a population of 34 million, which has now grown to 45 million but is projected to reach 276 million by 2100, which is close to the current population of the United States.

The implication of combining increases in wealth with population increases is that Africa will have a sizable middle class, with significant amounts of disposable income, by 2050. This constitutes a sizable African production base and consumer market. Yet, although 2050 is only 35 years away, there appears to be little effort being made to plan what infrastructure will be required to service the demands and expectations of this African production and consumer base. Instead, policy makers are using the rear-view mirror as their main planning tool and are still assuming that Africa needs large and efficient transport corridors to African sea ports to export largely raw materials and import consumer and manufactured items. More realistically, the actual case could be that Africa needs to start to construct transport networks to join up African centres that will become production and consumption centres where greater value addition of Africa's raw materials and food crops is done within Africa and consumed within Africa and with less export of raw materials and basic commodities.

A further constraint could be that many of the projects listed in PIDA may not be economically or financially viable. There are a number of projects in PIDA, which are, by definition, classified as priority projects necessary for Africa's economic development and which have been priority regional projects for decades but which have not been implemented. For example, the first detailed survey of a railway route between Zambia and Zimbabwe across the Zambezi rift valley, crossing the Zambezi River at or near Chirundu, was

done in 1916. The purpose was to reduce the haul distance of copper from the Copperbelt as the existing railway line followed the watershed through present-day Zambia and crossed into present-day Zimbabwe at Victoria Falls. A line from the railhead at Kafue to the railhead at Lions Den would cut hundreds of kilometres off the journey and hence save money in transport. Another survey of the 'short-cut' route was done in 1932 to shorten the proposed 1916 route even more, and yet another survey was done in 1953 (because construction of the Kariba Dam necessitated another 'short-cut' track realignment) and more studies and surveys have been done since then.

This infrastructure project was first proposed almost a century ago and yet construction has not started. The inclusion of this project into PIDA is presumably on the assumption that there have never been sufficient funds to construct this railway line, ignoring the fact that this line may no longer be financially or economically viable or that this proposed route may no longer be important for DR Congo or Zambia as alternative routes to regional coastal ports that now exist. The Kafue–Loins Den railway project may, on the other hand, be financially or economically viable, but there is insufficient information for this to be determined. This is the case for many PIDA projects, and if there is insufficient information to do an economic or financial evaluation it is difficult to prioritise a project. If the project is justified purely on political or social criteria, then it is unlikely to be bankable; and if it is not bankable, it is unlikely to be implemented.

Most projects in PIDA are at the concept stage; hence, until there is a feasibility study done, there is no way of determining whether these projects are viable. Despite the finances that are being made available for infrastructure projects, it remains the case that it is difficult to get funding to do pre-feasibility and feasibility studies. Thus, and to avoid a situation where NEPAD would have to carry out a multitude of feasibility studies, NEPAD adopted the PIDA-PAP, which is a sub-set of all PIDA projects that have been developed beyond the concept stage. Using the parlance of PIDA, PIDA-PAP projects should be classified as being at the S2 or S3 project preparation stage (where S1 = early concept proposal; S2 = feasibility/needs assessment; S3 = programme/project structuring and promotion to obtain financing; S3/S4 = financing and roll out; and S4 = implementation and operation). If a project is classified as being in the S1 stage, it is unlikely that it will be ready for implementation within the next five–seven years, and if a project is in the S4 stage, it will, most likely, already have secured financing. Therefore, by definition, projects in the PIDA-PAP have had a feasibility study done and so have been a priority project possibly for quite some time. However, given the rapid changes taking place in Africa, and advances being made in engineering techniques, unless the feasibility study has been done in the recent past, it may no longer be valid and may need to be redone.

Project feasibility also needs to be appropriately interpreted. For example, in engineering terms, it may be feasible to build a bridge across a river. But, unless the bridge is evaluated as part of a transport or trade corridor, the project, in isolation, will not be viable. The purpose of building trade and transport infrastructure is, primarily, to reduce the cost of doing business and, for a regional project, to reduce the cost of cross-border business. It is, therefore, important that an infrastructure project be synchronised with other infrastructure and with the existing regulatory and administrative environment. Transport infrastructure projects need to be synchronised with other infrastructure projects along a transport corridor so that each infrastructure project re-enforces the impact of the next project and the cumulative result is a more efficient transport and logistics system. The same is the case for synchronising infrastructure with regulatory, legal and administrative regimes – such as ensuring a road rehabilitation project is done together with an axle-load control regime and a periodic and regular maintenance regime so that the investment in the road is sustainable and meets value-for-money criteria.

An example of measuring the viability of an infrastructure project as part of a transport corridor can be found on the North-South Corridor (NSC) road network. In this case, the University of Birmingham,[19] England, did a road-condition analysis, using a regional HDM-4 approach to assess the condition of the entire NSC road network of about 8,000 km. HDM-4 is a software package and tool used by all Roads Departments/Agencies in countries the North-South Corridor traverses to analyse, plan, manage and appraise road maintenance, improvements and investment decisions. From the NSC regional (total corridor) HDM-4 analysis, roads were categorised into those that were in good condition, fair condition and poor condition, based on the International Roughness Index (IRI). A maintenance schedule, which was costed, was devised; this, when implemented, would bring the entire road corridor to a fair-to-good condition. The benefit of bringing the entire road corridor to a fair-to-good condition, combined with a saving of time at border crossings (50 per cent saving of time on average), was then calculated as a net present value (NPV). In this way individual sections of the corridor, be these roads, border posts, or bridges, could be prioritised in terms of the impact the upgrading of that particular piece of infrastructure would have on the service delivery performance of the transport corridor as a totality.

This holistic approach to project selection and prioritisation is missing in PIDA, at least in the transport sector, meaning that scarce resources may not be allocated, primarily, to projects and programmes where there is the highest return on investment in terms of improved service delivery and logistics efficiencies. In addition, PIDA projects are derived from a 'backward-looking' (rear-view mirror) approach to planning. The PIDA project planning process does not start from where Africa wants to be in 2050 and work back from there – instead it starts from where Africa was in the last century and assumes that the economic growth trajectory will be the same

as it was in the past century in terms of infrastructure. This scenario, where Africa will need 'more of the same' going into the twenty-first century, is highly unlikely owing to Africa's rapid population and economic growth contributing to a rising middle class with disposable income, constituting a market for consumer goods, combined with exponential technological advances, especially in communications.

Conclusion

In conclusion, steady progress is being made in addressing Africa's perceived infrastructure deficit by African governments, international cooperating partners, private sector investors and development banks, and within the framework of a continental plan, this being the Programme for Infrastructure Development in Africa. Considerable effort, and good progress, has also been made in addressing Africa's infrastructure financing gap. This has been done by bringing new financial instruments to the market, such as the African Development Bank's Africa50 facility, by African countries benefitting from flexible financing mainly from China, through more effective and efficient use of public-private partnerships, and through the blending and leveraging of grants and soft loans to mitigate against risk, especially in the early stages of project development.

However, despite these very promising and positive developments, it is not certain that the transport infrastructure being planned and developed under PIDA will meet the needs of Africa in the future. The Africa of the future will be considerably more populous and affluent than it is today and will need a transport network that will link production centres in Africa with markets in Africa. Currently, there is no mechanism in Africa's infrastructure planning methods, including PIDA, to ensure that the infrastructure to be built is going to link these new internal markets with new internal industrial centres and agricultural production. Infrastructure planning in Africa is not referenced to the future economic development strategies of the African continent. The Trans-African Highway network conceived in the early 1970s, and reflecting a political regional integration ambition of joining up Africa's major capital cities, is still a PIDA priority; standard-gauge railways are being planned mainly on a national, and not regional, basis and where there are regional railway plans, such as in EAC, the projects are not financially viable and need to be financed from treasury; there is no continental 'hub and spoke' plan for maritime transport to take account of the global reality of using bigger and bigger ships for inter-continental maritime transport; and airports are planned primarily to serve national interests, with greater air transport freedoms given to non-African carriers than African carriers, reflecting poor implementation of the Yamoussoukro Declaration concerning the liberalisation of access to air transport markets in Africa.

In essence, Africa's infrastructure development plans are still heavily biased towards political, rather than economic, continental and regional integration considerations. This is clearly seen in the list of PIDA projects that reflect a geo-political balancing act rather than the outcome of a hard-nosed financial and economic analysis. Given that the primary goal of most decision-makers in the world of high-finance is to make as much money as possible in as short a time as possible and with the least amount of risk possible, it is not surprising that finance for most of Africa's priority transport infrastructure projects is hard to secure.

If Africa's infrastructure gap is to be closed and done so in a way that reflects Africa's future infrastructure needs, a more balanced approach to infrastructure planning will be required, with less emphasis placed on political factors and more on economic and financial factors. In essence, the continental infrastructure plan will need to start with where Africa wants to be in, say 2050, and what production systems should be prioritised. This could best be done using a value-chain analysis where, for instance, a region would prioritise value addition in certain sectors where there is a perceived comparative or competitive advantage, such as in agro-processing and mineral beneficiation (upstream and downstream). The transport infrastructure that is required to achieve this value addition can then be planned and, once planned, checked for feasibility and bankability, although this also assumes the availability of funds to carry out feasibility and pre-feasibility which, for large infrastructure projects, run into the millions of dollars in costs. The end result would be a greatly strengthened and more credible PIDA and a plan for transport infrastructure that stands a chance of meeting Africa's future needs.

Notes

1. Study on Programme for Infrastructure Development in Africa (PIDA) Phase III PIDA Study Synthesis. Prepared in September 2011 for the African Development Bank, NEPAD, and the African Union Commission by a consortium headed by SOFRECO.
2. Vivien Foster and Cecilia Briceño-Garmendia, Africa Infrastructure Country Diagnostic Report. World Bank.
3. http://www.lse.ac.uk/publicEvents/pdf/2014-MT/20140923-Kaberuka-Transcript.pdf.
4. R. Schiere and A. Rugamba, 'Chinese Infrastructure Investments and African Integration', AfDB Working Paper 127, May 2011.
5. For a detailed analysis of the trends in external support to the African infrastructure sector, see ibid.
6. Review of the Implementation Status of the Trans-African Highways and the Missing Links: Volume 1: Main Report. Africa Development Bank (SWECO INTERNATIONAL/NCG/UNICONSULT/BNEDT), 2003.
7. For a map of the proposed Trans-African Highways, see: http://mapsof.net/map/map-of-trans-african-highways.

8. Quoted in an article entitled 'Trans-African Highway Remains a Road to Nowhere', http://www.howwemadeitinafrica.com/trans-african-highway-remains-a-road-to-nowhere/39863/.
9. According to the Truck Drivers' Guide for Ghana, http://www.borderlesswa.com/sites/default/files/ resources/aug10/Drivers%20Guide%20to%20Ghana%20small.pdf, UMEOA and ECOWAS implemented a new GVM regime in January 2011, but it should be mentioned that ECOWAS has made several attempts over the years to achieve intra-regional harmonisation of axle loads as specified in the ECOWAS Land Transport Programme but, as yet, regional harmonisation has not been achieved.
10. In most Sub-Saharan African countries roads are regarded as a public good and the construction, maintenance, and rehabilitation of roads have been covered using public funds from donors and the government budget. Although recently there have been moves to introduce taxes, such as fuel tax, to finance the upkeep of the road network, and the introduction of road tolls, it is still the case that road users are subsidised from public funds. Conversely, railways operate on a user-pays-all basis with no, or very small, public sector subsidies.
11. The name 'Triple-E' is, apparently, derived from the class's three design principles: 'Economy of scale, Energy efficient and Environmentally improved'.
12. http://en.wikipedia.org/wiki/Maersk_Triple_E_class.
13. Ports in Djibouti, Sudan, Nigeria, and Namibia can now accommodate vessels with a capacity of around 4,000 TEUs.
14. TradeMark Southern Africa (www.trademarksa.org) was a DFID-funded programme that supported COMESA, EAC, and SADC in trade policy, including the design and negotiations of the COMESA-EAC-SADC Tripartite Free Trade Agreement, trade facilitation, and infrastructure planning and development but which closed in March 2014.
15. http://www.lse.ac.uk/publicEvents/pdf/2014-MT/20140923-Kaberuka-Transcript.pdf.
16. http://novafrica.org/papers%20financial%20conference/Paul%20Collier.pdf.
17. There are some situations where a project may not be proved to be economically or financially viable by an independent source, but the project still goes ahead. This is particularly the case where a country requests financing (usually on the basis of a turn-key project where the financer, in effect, selects the constructor) and repayments are made by the national treasury rather than from user fees from the project itself. This is the model commonly used by the Chinese where funding for an infrastructure project comes from, usually, China Exim Bank, and the contractor is a Chinese company which is paid directly by, in this case, China Exim Bank.
18. For a project to be regional in nature, it is either located in two or more countries (such as a dam on a river bordering two countries or a road, railway, or power transmission line that traverses two or more countries) or it is located in one country but the infrastructure services more than one country (such as a port or a section of a regional transport corridor – road or rail or power transmission line – located in one country).
19. The University of Birmingham is part of HDMGlobal, an international consortium of academic and consultancy companies that have formed a partnership for the future management of HDM-4.

5

The Growth of Continental African Brands

Nicholas J.W. Kühne

To gain a better understanding of the drivers behind the recent growth of consumer brands across Africa, two very important demographic groups need to be highlighted.

The first is the 'basic needs consumer' a distinct group of around 220 million people. This group is the bread and butter for packaged food companies such as Tiger Brands, Dangote, Golden Penny, Wilmar and similar commodity suppliers across the continent. The second, and more interesting, group is the African 'middle class' believed to represent around 340 million individuals.

Africa's middle class has tripled over the past 30 years, with one in three people now considered to be living above the poverty line. The current trajectory suggests the African middle class will grow to 1.1 billion (42 per cent) in 2060.[1]

Although this is a massive number of people, the African middle class is in no way similar to the North American or European understanding of the term 'middle class'. The African Development Bank defines the African middle class as individuals who spend between $2 and $20 a day.

The Chinese middle class (which is currently of comparable size) is defined as individuals spending between $25 and $94 a day. A much better prospect for business! Nevertheless, there is an increasing interest in doing business in Africa by companies from countries as diverse as Brazil and Thailand.

Branded consumer goods play an important role particularly in the basic needs consumer set. If a consumer spends $2 a day, he or she cannot (and will not) continue to buy a product that doesn't meet his or her (albeit modest) expectations. Essentially, a brand's message is a promise of quality; the producers of the item guarantee a certain level of quality and the consumer has recourse if the product doesn't fulfil its promises.

This is one set of reasons why *international* brands are generally regarded as more trustworthy than local brands. It is well known, for instance, that the detergent branded OMO is not going to burn the users' hands or destroy clothing, and therefore the manufacturer is able to charge a premium and

the consumer doesn't pay grudgingly. But this attitude is slowly changing, and increasingly, local brands are now beginning to offer a similar degree of confidence to consumers, thereby creating a genuine threat to established multi-national brands.

Wunderbrand, a company dealing with branding in Africa, refers to 1950s American style advertising campaigns when considering up and coming consumers. A major insight discerned by Wunderbrand is the phenomenon of 'firsts' in many African countries with emerging economies – the first trip to a cinema, first microwave oven, first credit card or first restaurant experience; many of the middle class and basic needs consumers are beginning to experience activities, products and services for the very first time.

Because new consumers require educating, education is the first and most important element when marketing a product. A brand which understands this clearly is Nando's. Many years ago, Nando's subtly promoted their offering as a 'first restaurant experience' for the new up and coming middle class in South Africa – migrating up from takeaway chicken meals like KFC (international brand) and Chicken Licken (local).

Continental African brands making their mark

The impact of international brands in Africa during the past hundred years or so is clear. Unilever, Nestlé and others have cornered the lion's share in many consumer markets in Africa and continue to grow their footprint as they seek new markets.

However, there are many local brands with strong positions in local markets and more of them are beginning to expand in their local territories while also branching out into neighbouring countries. This is resulting in a tougher time for multi-nationals, as strong indigenous brands begin to make their mark.

There are many positive spin-offs from this growth in African brands.

African brands that have made a mark – legacy brands

Throughout Africa there are legacy brands that form part of the day-to-day purchases by local consumers. These include the obvious international brands such as Coca-Cola, PZ Cussons and Unilever. In the past few decades, local fast moving consumer goods (FMCG) brands have been actively competing with international brands. The monopolies colonial and other foreign interests were able to establish in the continent for most of the previous century meant that most if not all branded products were imported or set up by British, American, French or Portuguese companies. An example is Lever Brothers (now Unilever) who started operations in Nigeria in 1923 and now owns large swathes of market share in all of the sectors it operates in.

Similarly, PZ Cussons was founded in 1879 as a trading post in Sierra Leone and now has a big footprint across West Africa.

Probably the sole early and best-known African luxury brand was a dessert wine from Groot Constantia in South Africa. The wine became unavailable for decades until 2003 when the estate began production of a dessert wine, called Grand Constance, for the first time since the 1880s. In the nineteenth century, the wine was acknowledged as Napoleon's, Sir Walter Scott's and the French king Louis Philippe's favourite tipple.

African brands that are starting to make a mark – new entrants (b-brands)

Sanctions, liberalisation, indigenisation, nationalism, industrialisation, population growth and a variety of other factors have powered the growth of home grown brands, typically in protected industries such as cement (Dangote) and sugar and flour, but also in areas where getting a product to market is based on local understanding and empathy. A product such as the Gala sausage roll produced by UAC foods/Tiger Brands is synonymous with rush hour traffic in Lagos.

'Globacom' is one of the largest indigenous mobile networks in West Africa, which unfortunately has come under pressure due to the nature of its ownership structure and lack of growth outside its primary Nigerian market. It is nevertheless well placed to make a mark in the region, but will need to compete in a category that is fast becoming commoditised.

'Kasapreko', an alcoholic beverage company started in 1989 in Ghana, has been progressively building its brand presence across the continent. Its flagship brand Alomo Bitters, an aromatic herb-based liquor, is enjoyed in bars and taverns from Accra to Cape Town. They are also attempting to expand further afield in order to take advantage of the growing demand for alcoholic beverages on the continent.

A prolific advertiser at airports, GT Bank prides itself as being 'the African bank'. Although not nearly the size of its South African counterparts, the bank has made large strides in creating a respected Nigerian bank brand that can be found in neighbouring Ghana and also in Kenya. Access Bank is another Nigerian bank that has been taking advantage of the continued growth in the banking sector, with over six million customers and branches in eight countries.

UAC, mostly unknown outside Nigeria, has come into prominence and will probably be swallowed up completely by future deals – such as selling off a portion of its fast food business (Mr Bigg's) to South Africa's Famous Brands restaurant chain. Famous Brands is the largest African fast food company, and by including Mr Bigg's in its already enormous South African portfolio of brands, it is more than likely to signal the start of their expansion into

Nigeria. Zimbabwe also features INNSCOR, represented by fast food holding company, which owns around 210 stores in six countries. INNSCOR also has a variety of other regionally respected brands in its portfolio.

African brands have also been part of driving technological advancement in Africa. MTN, for example, leapfrogged local and international telecoms companies by taking the huge gamble to start operations in Nigeria when all the signals probably pointed to disaster. They managed to do this through seeing the opportunity, giving the market what it desperately wanted (access to communications) and quality service.

What have been the main constraints in building 'African' brands?

Because of such a long history of international brands owning the market, the respect for local brands has tended to be limited. It also means that growth in local brands typically has been in the commodity space such as water, beer, snacks and energy. Brands that rely on prestige and exclusivity have only recently been making an entrance on the local front (Yswara) as Africans are quietly developing a stronger sense of confidence in their own style. This is often helped by African brands doing well or being picked up in the international market, Oswald Boateng, the Ghanaian fashion star, being an example.

What impact have these brands had on the local economies?

Fashion brands are one example of an industry creating jobs by penetrating the formal market for low-skilled workers, women in particular. The growth in popularity of African fashion week, fashion tourism and interest from the US and Europe are examples that show that this sector is steadily increasing in size. The Ethiopian shoe brand SoleRebels, owed by Bethlehem Tilahun Alemu, has expanded internationally. As mentioned previously, respect for African brands is still low, so the majority of SoleRebels's sales and press coverage has been in international markets. What is exciting about this industry is that it is a creative industry versus one that is easily replicated. The best way to create strong brands is through creative leadership – something that is hard to replicate.

The size of the growing banking sector in most African countries has also resulted in the growth in the number of African graduates being head hunted for a limited number of positions. Coupled with the training and business exposure many young, educated individuals receive, many of them are leaving the banking sector to work on start-ups in the burgeoning mobile and digital finance sector.

What impact have these brands had on the perception of Africa internationally and locally?

An exciting aspect of this is that 'Made in Africa' has very limited connotations. Unlike the Chinese experience of changing the perception of 'Made in China' to 'Created in China', Africa is in the enviable position of being able to create its own story around its products.

However, it should not be forgotten that Africa is not a homogenous continent. Kenya is known for producing splendid teas, and Ethiopia as the originator of coffee; for gold and diamonds, think South Africa, and for exotic spices and textiles, Morocco.

What are the most entrepreneurial and marketing savvy countries?

This often is based on geographic location and government assistance, or the lack of it. Mauritius, for example, has made tourism and finance its two major focus areas. Rwanda is trying its level best to become the technology hub for Africa. When there is a vision from the government and business leadership in a country, one finds that there is a growth in the supported sectors as they try to build a competitive advantage.

Countries and what are they doing? (prolific brand creating regions)

The 2013 Brand Africa 100 Most Admired and Valuable Brands in Africa report delivered some interesting results showing that African brands are making headway at 34 per cent of all the brands nominated in the survey, with international brands steady at 66 per cent. A further breakdown of the African results indicate that South African brands represent 24 per cent of the share, Nigerian brands represent 9 per cent with Kenyan brands representing the remaining 1 per cent.

Conclusion

The continent is in an enviable position of being courted by companies from all around the world. However, in order for Africa to grow strong local industry and weather economic storms, it needs to build strong local brands to compete with the many other international competitors vying for emerging consumers. African continental brands are emerging, meaning that smaller African brands are being overtaken not only by multi-nationals, but by other African brands. Brands focusing on only single markets could find that they are going to struggle in the near future as economic blocs start

to open up borders and ease trade restrictions. There are many advantages of being a home-grown brand, but it does not guarantee success. There is only a short window for smaller African companies to make the move from being products to becoming brands. International companies who are desperate for new markets and revenue have the skills and drive to overtake local brands, so before this happens, a BRAND new Africa is needed.

Note

1. Deloitte, March 2013, http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Africa/Deloitte_on_Africa-(1)_rise_and_rise.pdf.

6

Is It Time for Open Borders in Southern Africa? The Case for Free Labour Movement in SADC

Adrian Kitimbo

Southern Africa is facing significant skills shortages. This is evident in countries such as South Africa, where the scarcity of particularly high-skilled workers in sectors including engineering, medicine and senior management has the potential to limit the country's long-term economic growth.[1] A recent report[2] by Adcorp, a labour market specialist, estimates that there are 470,000 vacancies in South Africa's private sector which are currently not filled because of unavailable skills. These shortages are attributed to 'brain drain' from South Africa, immigration restrictions on high-skilled foreigners and failings in the education system.[3] South Africa is not alone – regional neighbours such as Namibia also report that their economic growth targets are stymied by shortages of workers in industries that are critical to their economies.[4]

Migration experts largely agree that one way to address skills shortages is through increased labour mobility among countries.[5] It is argued that mismatches in the labour market occur when companies' demand for workers are not met with people that have the right skills and competencies. These gaps, as is the case in a number of Southern African countries, hurt workers who cannot find employment suited to their skills. They also decrease the productivity of companies, which in turn damages the economic growth of countries. Yet the benefits of labour mobility go beyond providing workers to sectors where there are shortages. The movement of labour also has the potential to enhance trade and spur entrepreneurship. Evidence[6] from the European Union (EU), home to the most progressive migration system in the world, attests to these benefits.

Despite clear gains that emanate from labour movement, Southern African Development Community (SADC) members are reluctant to embrace the idea of free movement of persons, including labour. Even as other African Regional Economic Communities (RECs), including the East African Community (EAC) and the Economic Community of West African States (ECOWAS), have made significant progress toward opening up borders for their labour migrants, SADC seems a long way off in achieving this goal.

The debate over free movement in SADC is often hijacked by populist sentiments. Inter-regional labour movement tends to evoke security concerns, as well as the fear of a 'flood' of migrants to major receiving countries such as Botswana. The eruption of xenophobic attacks against Zimbabweans and other foreign African nationals in South Africa in 2008 highlights the difficulties in promoting a balanced discussion on free labour movement.

Against this backdrop, this Discussion Paper draws from interviews with migration experts to explore some of the potential economic benefits of free labour mobility for both sending and receiving countries in SADC. Mindful of the possible drawbacks of increased labour movement such as brain drain and the dampening of wages for particularly low-skilled workers, migration experts such as Lorenzo Fioramonti[7] nevertheless argue that a 'regional governance framework' that allows for a multilateral approach to development can limit some of these problems. The paper also draws on the EU experience as well as the migration policies of two other African RECs – ECOWAS and the EAC – in an effort to draw lessons for SADC.

A snapshot of global and regional migration trends

According to the United Nations (UN), the number of international migrants has increased by 53 million in the global North and 24 million in the global South since the 1990s.[8] As of 2013, there were 232 million international migrants.[9] There is also significant intra-African migration. In 2010, close to 30 million migrants were African and most of them moved within African borders.[10] In Southern Africa, a region which is the focus of this paper, there were 1.4 million migrants in 1990, and by 2010 that number had increased to 2.2 million.[11]

Botswana and South Africa stand out as the most sought after destinations for migrants from within SADC. In 1990, for example, South Africa and Botswana hosted 510,000 and 10,000 migrants, respectively, but by 2010 those numbers had risen to 1.2 million and 76,000 respectively.[12] Most migrants to major host states, including South Africa, are from Zimbabwe. Largely driven by economic circumstances, many Zimbabweans clandestinely cross into South Africa and Botswana for a chance at a 'better life'. While the media in South Africa often exaggerates the number of 'undocumented' Zimbabweans living in the country, the volume has undoubtedly increased in the past ten years. The rise in numbers explains, in part, why some SADC members are hesitant to embrace free movement of labour, as they fear that they will see the number of migrants who enter their territories increase to unprecedented levels.

The reality, however, that migration numbers continue to rise, even within Southern Africa, underscores the need to deal with migration at a broader level (a regional level in this case). Present national approaches to migration, combined with bilateral agreements and informality within SADC, are not

just unsustainable in the face of growing numbers, but also hinder economic opportunities that are associated with free movement of persons, including labour.

Labour movement is not new to Southern Africa

Labour mobility in Southern Africa stretches back to the pre-colonial era, when people traversed the region to work in various employment sectors. In the late 1800s, Mozambicans, for example, worked in the Western Cape as seasonal farmers.[13] Pedi and Sotho males also often moved across the Cape Colony to work on public works and farms as a way to earn wages to buy weapons such as guns, as well as purchase agricultural products and pay for a bride.[14] Like the Pedi and Sotho, the Tsonga travelled across modern-day South Africa for work, mainly engaging in seasonal labour on farms in the Western Cape.[15]

A major form of migration that dominated Southern Africa in the twentieth century was the movement of contract labourers throughout region.[16] In countries such as South Africa, contract labourers largely worked in the mining sector, an industry which attracted workers from countries including Botswana, Mozambique and Lesotho to work on gold mines on the Witwatersrand and on diamond fields in Kimberly. Mining companies hired foreigners partly because they were cheap, but also because many locals at the time did not want to engage in this kind of manual labour.[17] Other countries, including what is now Zimbabwe and Namibia, also received thousands of unskilled migrants to work on their mines. In Zimbabwe, coal and asbestos mines were a big pull for workers from Zambia and Malawi in the early 1900s. It is estimated that in 1935, up to 150,000 migrants left Malawi to work in mines in Zimbabwe, South Africa and Zambia.[18] Another important sector that attracted labour migrants in Southern Africa was commercial farming. Thousands of workers (mostly women) were hired to work on farms in several countries, including Zimbabwe and Mozambique.[19] Yet mining and commercial farms were not the only sectors that attracted labour migrants; to a smaller extent, particularly in South Africa, factories and domestic services also hired foreigners.[20]

The history of labour migration in Southern Africa illustrates that migration for work does not only have a long past in the region, but also, notwithstanding the serious social issues that attended it, formed an economic backbone for especially host countries, such as South Africa, that relied on low-skilled foreign workers for many decades. Furthermore, this history shows that systems of migration in Southern Africa are deeply rooted even though governments have tried to do away with them in recent years. The unintended consequence of restrictions on free movement of labour between countries has been an increase in problems such as irregular migration, a phenomenon which has created enormous social, political and economic

problems for SADC members. The regional SADC economy would be better served by a coherent and implemented regional policy on labour migration than it is with the current practice of trying to continually limit it.

Management of labour movement within SADC

Only recently, SADC members adopted a Regional Labour Migration Policy Framework that 'seeks to promote sound management of intra-regional labour migration for the benefit of both the sending and receiving countries as well as the migrant workers'.[21] But it is yet to be seen if the objectives in the Framework, including the 'harmonisation and standardisation of national labour migration policies', will be implemented by member countries. According to Joe Rispoli of the International Organization for Migration (IOM), labour mobility is currently dominated by policies at national level and by bilateral agreements between countries.[22] This is despite the Declaration and Treaty establishing SADC whose stated goal, among others, is to 'gradually eliminate obstacles to movement throughout the region'.[23] National interests, as opposed to those of the region, seem to be at the forefront of migration management within SADC. In regions such as the EU, integration has moved forward to such an extent that member states have given up some of their sovereignty to supranational institutions. Indeed EU law is superimposed and sometimes replaces national laws. As a result, EU members find it easier to domesticate EU law. Also, there is more pressure and urgency in domesticating EU laws, as enforceable penalties do kick in for those countries that do not implement them. In SADC, however, domestic laws determine migration policies of respective states.

In order to work within SADC, most foreigners, including those from within the region, are required to obtain work permits or visas before they can engage in employment. In the Republic of South Africa, for example, there are various permits that have to be obtained before foreigners can commence work. These include general work permits, intra-company visas, critical skills visas and business permits.[24] These permits and visas are obtained through the Ministry of Home Affairs. But in South Africa and other SADC countries, acquiring authorisation to work is not always easy. In fact, South Africa's recently adopted immigration law has been sharply criticised by business leaders, non-profit organisations and migration experts within the country and the region. It is argued that the new stringent rules that affect labour migrants threaten South Africa's long-term economic growth, as they could turn away tourists, potential investors and skilled migrants.

Bilateral agreements are also a centrepiece of current labour migration governance in Southern Africa. Of all SADC states, South Africa is perhaps the country with most bilateral agreements with countries in the region.[25] South Africa's dominance when it comes to these agreements is much attributed to its old labour migrant system, which recruited foreign workers from

neighbouring countries to work on mines, farms and factories.[26] Some of the countries with which South Africa has previously signed bilateral agreements include Malawi, Swaziland, Lesotho and Mozambique.[27]

SADC needs to re-think its management of labour mobility. Current national and bilateral policies, which largely favour restriction on movement, have had debatable outcomes. For example, Zaheera Jinnah, a migration expert at University of Witwatersrand,[28] points out that these agreements, which are meant to help tackle skills shortages, have not been able to achieve their goal, as a number of high-skilled sectors in SADC member states continue to struggle to fill positions. But more importantly, the present lack of free labour movement, for particularly high-skilled workers, is a big hindrance to potential economic benefits that could result from such mobility.

Evaluating some of the potential economic benefits and costs of free labour movement in SADC

Economic arguments alone do not influence migration policies. Other considerations, including those that are social and political, also play a role. However, the cost benefit analysis of increased mobility can have an even stronger influence in shaping policies that impact labour migrants. There is an array of literature and migration models on the economic impact of free labour movement. Classical and neo-classical theories of migration have long emphasised its benefits.[29]

The EU, which has the most progressive policies on free movement in the world, provides the best 'experiment' on open borders. Even as the recent economic crises in some member states have aroused fierce, inward-looking migration debates, labour mobility remains integral to the EU project. European labour migration dates back to post–World War II Europe, a period that was characterised by colonial immigration regimes and temporary guest worker policies.[30] During the former period, European countries took advantage of the large supply of unskilled workers in their colonies to meet their labour needs. The guest worker system was largely used during the economic recovery of countries such as Germany who looked South to Turkey and North Africa to meet their demand for workers.[31] The signing of the Treaty of Rome in 1957 made the free movement of labour among one of its central goals. The Maastricht Treaty of 1991, establishing a single market, reinforced the free movement of persons among EU member states.[32] The idea of European citizenship also emanated from the Maastricht Treaty and further strengthened the notion of free movement of persons, which resulted in giving EU citizens the right to move freely and live in other member countries.

Inter-regional labour mobility in the EU has enabled economic gains to both receiving and sending countries. One of such positive effects has been to help fix mismatches in the labour market. This is most evident in countries with high-skilled workers but lacking enough labour in the low-skilled

sectors. Even more, societies with an ageing workforce have been able to expand their shrinking labour force by drawing from a larger labour market. A recent study of inter-regional migrants in EU cities shows how places such as Turin, Italy, have capitalised on Romanian immigrants to fill gaps in sectors that some locals consider undesirable. These include agriculture, construction and domestic work.[33] Similar trends are seen in Hamburg, Germany, where foreigners are increasingly taking up jobs in sectors including the port industry.[34] Yet the supply of labour across the EU also extends to skilled sectors such as engineering and medicine. Germany, for example, has in recent years hired thousands to Spaniards and Portuguese to make up its shortfall of engineers and other professionals.[35] As the examples illustrate, because of free labour movement in the EU, countries experience less economically stinging skills shortages. Increased intra-regional mobility in SADC for specifically high-skilled workers can have similar resultant effects. Companies in countries such as South Africa would struggle less to fill available vacancies as there would be a larger pool of candidates with the right skills to select from.

Beyond tackling skills shortages, free labour movement has the potential to boost trade. In regions such as SADC, where intra-SADC trade as a percentage of the community's total trade has stagnated at around 15 per cent over the past decade,[36] an increase in mobile labour could enhance trade. Migration studies suggest two ways by which the movement of persons can improve trade. It is argued that migrants can reduce bilateral business costs between the host and sending countries. This is achieved through personal business connections with people from home countries.[37] Secondly, the specific knowledge that migrants bring about foreign markets can also lessen the cost of trade between countries. In cases where the political and social institutions of a foreign state are very different from that of the host state, the knowledge that migrants bring can prove especially useful.[38] Indeed, if a country possesses a significant number of ethnicities, the information on markets provided by these communities can spur trade between countries.

Another issue that is worth mentioning as part of the potential economic gains is the ability of increased labour mobility to reduce irregular migrants. Irregular migrants are people who enter host countries through illegal channels and without proper documentation. Presently, host countries spend enormous amounts of money on tightening border controls and in the deportation of undocumented migrants. South Africa and Botswana are perhaps two countries with the highest influx of these migrants. Other regional countries such as Namibia and Mozambique have also experienced a rise in undocumented workers. It is also important to highlight that the majority of irregular migrants in SADC are from within the region. In both Botswana and South Africa, most undocumented migrants who enter their territories have their origins in Zimbabwe, a country where harsh economic realities

have forced millions to look for work in other countries within the region and beyond.[39] It is estimated that since 1990, South Africa has deported over one and a half million people, most of them back to Zimbabwe and Mozambique.[40] Yet deportations and border controls do not seem to have the desired effect of preventing and deterring irregular migrants, as many desperate people often find clandestine channels to re-enter destination countries. According to Lorenzo Fioramonti,[41] the lack of free labour movement has facilitated the growth of irregular entry channels to host states, which are often managed by traffickers.[42] Recent reports reveal that traffickers financially exploit those who use their services, as well as physically abuse them.[43] In addition, because irregular labour migrants cannot work in formal sectors, they often take up employment in conditions where labour standards are not observed and are paid very low wages. Additionally, skilled labour migrants who could be of benefit in high-skilled sectors within host countries end up in jobs way below their skill levels. A managed regional labour migration regime that allows for the free movement of particularly high-skilled workers can help reduce the number of irregular migrants in the region and the problems that come with it. Furthermore, tackling irregular migration through an increase in the mobility of workers could also reduce 'brain waste' by enabling un-regularised skilled migrants to move into industries where they can best employ their skills.

But the benefits of free labour movement are not just limited to host states. An outflow of workers can reduce unemployment rates in sending countries, and remittances sent back home can be a source of foreign exchange as well as economically improve the lives of those left behind. In Zimbabwe, for example, remittances from abroad are credited with staving off a complete economic collapse in recent years. In addition, in case of return, the skills migrants gain abroad can prove useful in the sender's labour market.

From this, it may seem like free labour movement is a win-win situation for all parties involved. Overall, its benefits do clearly outweigh the costs. However, it also important to highlight some of the drawbacks from an increase in inter-regional labour mobility, as it helps in understanding why some countries are reluctant to embrace it. The threat of immigrants competing for jobs with locals is a real fear in host states. Joe Rispoli[44] stresses that in regions such as Southern Africa, where unemployment rates especially among low-skilled workers are high, an increase in labour movement arouses serious concerns over jobs. Moreover, if foreigners work for lower pay, this may dampen the wages for local workers, creating tensions between the two groups as a result. And while remittances are of significant benefit to countries of origin, brain drain and the possibility of losing people of the working age could have negative economic repercussions for sending countries. It is also possible that large outflows of labour from the least developed to the more developed countries in SADC may create labour shortages in countries of origin, stunting their economic growth as result. Some of these problems

are well evidenced in the Zimbabwe case. The millions of Zimbabweans escaping their country's economic turmoil for 'greener pastures' elsewhere has robbed the country of both its skilled and unskilled workers who could play a role in rebuilding the country. This brain drain is sure to further hinder Zimbabwe's path toward economic recovery. Furthermore, this mass exodus has also raised serious concerns over security and job losses for locals in countries such as Botswana. As a consequence, hundreds of thousands of Zimbabweans have been deported from Botswana.

However, an increase in labour movement does not have to necessarily trigger these drawbacks. A clearly well-developed and managed regional labour migration regime can limit these problems. Experts[45] argue that a multilateral framework like the recently developed 'SADC Labour Migration Policy Framework' can ensure that SADC benefits from free labour movement without many of the resultant problems of increased labour mobility.

Efforts to establish free movement in SADC

The first Draft Protocol on free movement in SADC was proposed in 1995. It was an ambitious Protocol that sought to gradually eliminate obstacles to free movement among member states within a period of ten years.[46] It was crafted in alignment with the African Union's objective of eventually building an 'African Regional Economic Community' where there would be free movement throughout the continent.[47] More specifically, the 1995 Protocol set out, in relation to every citizen of a member state, to 'confer, promote, and protect onto SADC citizens (i) the right to freely enter another Member State for a short visit without needing a visa (ii) the right to reside in the territory of another Member State (iii) the right to establish oneself and work in the territory of a Member State'.[48]

However, this rather ambitious Protocol was never adopted, as SADC countries, including South Africa, Namibia and Botswana, rejected it. The idea that there would be free movement of persons in a region that was then seen as having enormous economic disparities did not bode well with some members.[49] Also, concerns over the potential for free movement to usurp national policies, as well as socially and economically burden receiving countries, were a big influence on the decision by a number of members to reject the Draft Protocol.[50]After successfully thwarting the 1995 Draft Protocol, South Africa crafted a new version and titled it the 'Facilitation of Movement Protocol'. The new Protocol, among other things, sought to assert national interests over those of the Region, prevent countries from committing to an implementation time-table, as well as delay harmonisation of policies.[51] However, this version was seen as a significant step backwards by some SADC members and was hence not adopted. Following the rejection of the Facilitation Protocol presented by South Africa, the

secretariat redrafted the original Protocol, taking into account the concerns of member states, but kept the name proposed by South Africa – 'Facilitation of Movement'.

The Facilitation of Movement Protocol seeks to progressively eliminate obstacles to movement among and within SADC member states and facilitate entry of citizens into a second country visa-free for a maximum period of three months.[52] The SADC Charter of Fundamental Social Rights supports the Protocol with regard to the free movement of labour. Article 2 of the Charter seeks to 'promote policies, practices and measures, which facilitate labour mobility, remove distortions in labour markets and enhance industrial harmony and increase productivity, in SADC Member States'.[53] After being shelved for many years, the Facilitation of Movement Protocol was finally tabled in 2005 at the SADC Summit. Presently, thirteen SADC member states have signed and adopted it. But only six members (South Africa, Zambia, Lesotho, Mozambique, Botswana and Swaziland) have ratified it. For the Protocol to come into force, it has to be signed and ratified by at least two-thirds of SADC members.

Factors limiting the ratification of the Protocol include lack of funding and technical expertise required to put it into force.[54] Implementation requires funding administrative practices and making policy changes. For some SADC members, the Protocol is seen as both an extra burden and not really a priority. This is especially the case in countries such as the DRC who are struggling with internal conflicts among other social and economic challenges. Harmonisation of laws, which requires modifications in domestic laws as well as subordinating national political interests to long-term regional goals, is also not regarded as much of a priority by some SADC states. In addition, present bilateral agreements also contribute to a reluctance to ratify the Protocol.[55] Because some countries already have strong bilateral ties which allow their citizens to move freely, the Protocol is not seen as contributing much. The failure of SADC to implement the 'Protocol on Facilitation of Movement' is also attributed to a lack of commitment and political will to embrace policies on labour movement.[56] Other African RECs, as the figures demonstrate, have taken much faster steps toward opening up borders for member citizens.

ECOWAS' Protocol on free movement of persons

Founded in 1975, ECOWAS is a regional body comprising fifteen countries, these being: Sierra Leone, Cote d'Ivoire, Togo, Niger, Mali, Nigeria, Ghana, Guinea-Bissau, Guinea, Cape Verde, Liberia, Benin, Burkina Faso, Gambia and Senegal. The ECOWAS Protocol on free movement of persons is perhaps the most ambitious and advanced on the continent (Figure 6.1).[57]

Intent of the Protocol on free movement

- Enacted out of a need to achieve the ECOWAS Treaty objective to eliminate obstacles to 'free movement of persons, goods, service and capital, and to the right of residence and establishment.'
- The Protocol lays out the legal and administrative frame work for the implementation of free movement and residence.
- The Protocol envisioned a West Africa where citizens could traverse the Region without being limited by either natural, socio-economic, or political boundaries.
- The rationale for adopting the Protocol was based on the understanding that in order to improve the welfare of Member States, the sub-region needed to face the economic, political and social challenges as a collective.

Implementation

- Phase one, right of entry and abolition of visas for citizens of Member countries, was ratified in 1980; the second phase, which gives citizens the right to reside and take up employment in another ECOWAS Member State came into force in 1986; and the third phase of the Protocol, the right of establishment, is still in the process of being ratified.
- The adoption of a common Passport and National Identity Cards, both of which are said to have increased mobility in the region, illustrates the ECOWAS resolve to eventually remove all obstacles to movement and right of establishment among Members.
- Implementation of the Protocol has also been met with problems such as harassment and extortion at border checks.

Figure 6.1 Intent and implementation of the protocol on free movement

Sources: Adapted by the author from the Treaty of ECOWAS; A Region without Borders? Policy Frameworks for Regional Labour Migrations towards South Africa', MiWORC Report, 2013.

The EAC Common Market Protocol

The EAC is a Regional Economic Community comprising Uganda, Kenya, Tanzania, Burundi and Rwanda. The Treaty establishing the existing EAC was signed in 1999 by the original three founders (Kenya, Uganda and Tanzania) and came into force in 2000. Rwanda and Burundi joined the Community after acceding to the EAC Treaty in 2007.

How can SADC catch up with EAC and ECOWAS?

SADC can begin with harmonising labour movement policies among member states. The EAC, for example, already had relatively uniform labour movement policies between partner states. In SADC, current policies vary from one country to another. One example of this is the procedures for granting work permits which are different in every country. This lack of uniformity makes the process of applying for work permits confusing and extremely cumbersome for those who wish to work in another member state. The recently adopted Regional Labour Migration Policy Framework is a step in

Figure 6.2 Intent and implementation of common market protocol

Sources: Adapted by the author from the Treaty Establishing the East African Community; A Region without Borders? Policy Frameworks for Regional Labour Migrations towards South Africa', MiWORC Report, 2013.

the right direction. If all member countries do indeed implement its objectives, the Framework will ensure that national labour migration policies are harmonised throughout the entire region.

SADC should also strive to gain the full support of its members to finally bring the 'Facilitation of Movement Protocol' into force. One way of enabling this is to pool technical expertise and resources to help those countries that have not ratified the Protocol because they lack the know-how and resources to domesticate its provisions.

More communication between the Ministries of Labour and Home Affairs is also needed if the Protocol is to garner full support. Joni Musabayana, the Deputy Director of the International Labour Organization (ILO) in South Africa, spoke about the tension that often exists between the security concerns of Home Affairs and the labour needs of Labour Ministries.[58] These competing interests have played a role in stifling progress toward free labour movement in the region. Dialogue between these Ministries is significant to ensure that the security concerns of SADC countries are addressed, while at the same time allowing for the free movement of labour that is economically beneficial to member states.

Furthermore, unlike the EAC and the ECOWAS, SADC seems to lack the same sense of urgency and political will to enable free labour movement

in the region. Commitment to free movement in ECOWAS is, for example, reflected in the Common Approach, a Policy Paper meant to speed up the implementation of the free movement protocol. The Paper also re-emphasises the significance of free movement to regional integration and the link between migration and development. Realising the benefits of free movement, Rwanda and Kenya have also moved faster than other EAC countries by abolishing work permit requirements for citizens of member countries. If SADC is to fulfil its Treaty objective of free movement among members, leaders in the region have to take free movement of labour more seriously.

Another important way forward is for major host states (South Africa and Botswana) to do a better job of highlighting the benefits of labour migration to their citizens. Since migration in the region often invokes negative sentiments, it is imperative that governments spell out to their citizens the potential economic gains of this kind of movement.

The private sector, which has a large stake in migration, particularly labour mobility, can help push the region toward a larger labour market. Labour mobility is significant for the private sector, especially because companies and businesses are not accountable to the public but to their shareholders and they understand that migrants and increased mobility generate profit. Also, private sector companies are among the most affected if the labour market lacks workers with the right competencies to fill vacancies. Intra-company transfers, which are critical to human resource strategies, also depend on the ease of workers to move from one country to another. Unfortunately, however, there is very little interaction between governments and private sector on migration policies. Loane Sharp, the Labour Market Specialist for Adcorp, pointed out that the South African government, for example, rarely consults the private sector when drafting migration laws.[59] Migration laws are often passed in response to political and social concerns but with little economic considerations. But it is also fair to say that the private sector throughout Southern Africa could take a more active role in lobbying governments to act more quickly in enabling free labour mobility for the much needed high-skilled workers. This lack of engagement or limited communication between the public and private sectors is a problem, as governments tend to pass laws which are not in tandem with private sector labour needs.

Private sector companies and businesses are major drivers of economies in Southern Africa. A united voice from them can provide the impetus to quickly implement the Labour Migration Framework as well as the ratification of the free movement protocol by those countries that are still on the fence.

Conclusion

This chapter illustrates that there are several potential economic benefits from increased labour mobility within SADC. Free labour movement has the potential to address skills shortages, reduce the number of undocumented

migrants and also enhance trade within the region. While the drawbacks from such labour mobility including brain drain and the dampening of local wages cannot be overlooked, these problems can be addressed through a managed regional labour migration system that, for example, initially allows for the free movement of workers with particular skills (e.g., high-skilled workers).

Conditions do exist to finally establish free labour movement in SADC. A Regional Labour Migration Framework that would allow for the harmonisation of labour migration policies across the region is already in place. It is incumbent on member states to implement what is set out in the Framework. A protocol to facilitate free movement, including labour, also already exists. More political will as well as the pooling together of technical expertise and resources are required to finally bring the Facilitation of Movement Protocol into force. And, as stated earlier, successful implementation of the protocol (when it finally comes into force) requires a closer working relationship between the Ministries of Labour and Ministries of Home Affairs in individual SADC countries to ensure that the concerns and needs of both Ministries are met. Furthermore, a united voice from the private sector and a stronger working relationship with the public sector could also go a long way in enabling free labour movement in the region.

If SADC wishes to strengthen its integration, as well as collectively address the economic imbalances in the region, the migration-development nexus cannot be forever avoided. Other African RECs, including ECOWAS and EAC, show that even among regions where there are significant economic disparities among neighbours, free labour movement is possible and can be beneficial. While SADC does have a few strong economies such as South Africa and Botswana, most of its members have weak economies and markets. These economies cannot grow in isolation. More regional integration, through increased labour mobility, can generate the impetus needed to solve the socio-economic problems this region faces.

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